



TITLE

***Nors Case Study: Traditional Budgeting process transformation
into Beyond Budgeting Model***

by

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Bio

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Abstract

The value creation as main goal to companies can be monitored through the company's performance management system, which should be tailored to measure the effective shareholders value creation, as well as, influence the managerial compensation scheme.

This study intends to analyse the veracity about the criticism existent around the Traditional Budgeting process and analyse the Beyond Budgeting process implementation to understand why this model is considered the-state-of-art for performance management models. The Traditional Budgeting process have been since decades defined by several researchers as inefficient, costly, time and resources spending, rapidity to become obsolete, potentiate bias on focus, among others and several companies around the world, but mainly focused in Scandinavian countries have been implementing the Beyond Budgeting model, as replacement model to the Traditional Budgeting process, some benefits attained are strategic alignment, decentralization of organization structures, rewards based in relative targets, changes in culture to avoid unethical behaviour and value destruction.

In this way, the purpose of this study is according to the case study in a Portuguese company, try to find if the critics and benefits of both models are evidence of this empirical research, in which the data collection will follow an exploratory qualitative research methodology based in five interviews and in documents analysis.

The aim of this study is to contribute to the empirical literature of new perspectives about the performance management models, such as the Traditional Budgeting process and the Beyond Budgeting model, with a real-life case study, that was the first in Portugal to past through this kind of implementation process.

The evidence gathered shows that the obstacles and consequences explored in literature about the Traditional Budgeting process are also applicable to *Nors*, and the benefits of the Beyond Budgeting model are evidence in the case study analysed. There such a match between the Traditional Budgeting process obstacles and the Beyond Budgeting model benefits, bring confidence to the Company about which model should chose to replace the previous process implemented.

Key-word: Traditional Budgeting process, Beyond Budgeting model, Better Budgeting model, Advanced Budgeting model, Rolling forecast

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1. Introduction

The primary goal of this dissertation is to investigate the validity of the criticism existent around the Traditional Budgeting process, which has been often accused of being a rigid planning, time-consuming, frequently unable to react to changes in the company's dynamism, which can leave the company behind the drivers of shareholder value. Secondly, this study intends to understand the Beyond Budgeting model that has been implemented in several organizations as the state-of-the-art performance model, which is supported in decentralized principles.

Companies are created with the aim to create value and continually increase shareholders' value. Value can be created through strategic investments and operational decisions that impact the company operational performance. A way of measuring a company expected and realized value created is by analysing the operating performance (*ex-ante* and *ex-post*), that can be made using management tools, such as budgeting process, rolling forecasts, balance scorecard or others tools, develop into the performance management system of companies. As defined by Ramezani et al. (2002) the maximization of absolute targets, such as sales growth, usually aren't a way to maximize the corporate profitability or shareholders value, reasons why, this study focus this subject of adjusting the organizations performance systems and managerial compensation scheme in effective value creation for companies.

The develop of this topic gives the opportunity to look from new perspectives to old practices, such as the Traditional Budgeting process, and to understand new management models, such as the Beyond Budgeting model, using a real-life case study.

The main objective of this study is to understand which are the motivations, believes and drivers to the Portuguese company under analysis, *Nors*, to completely abandon the Traditional Budgeting process and implement a completely disruptive model. In this way, the main research question for this study is: i) How the Traditional Budgeting process can damage companies, ii) Why to implement the Beyond Budgeting model? and iii) Which are the process and cultural benefits of this model?

Following the case study systematic methodology, this exploratory case study will collect primary data through five face-to-face interviews and secondary data through

documentation and archival records analysis, in order to attain the answer to the research questions and achieve the main conclusions for this study, comparing with the literature review, from several other companies that have done similar implementation.

This dissertation is structured in 5 main chapters. After this introduction, the chapter 2 will present the literature review about the Traditional Budgeting process as well as in the alternative models fields, including a definition of each concept, the main advantages and obstacles. In the chapter 3, it will be detailed the research methodology followed and in chapter 4 the data gathered will be analysed within the conceptual framework defined in chapter 2 and compared with literature review. Finally, the chapter 5 will present the conclusions and recommendations reached according to the literature reviewed and the empirical data gathered.

2. Literature Review

2.1 Traditional Budgeting process definition

The budget has been defined by several authors as a forecast and plan used by companies to control and monitor performance. Typically for the following year, but it can easily include the following two or three years (Wallander, 1999). Horngren (2006), cited in Player (2009), defines the budget process as:

“A financial blueprint of management’s expected plan of action. As such, they serve at least six key functions:

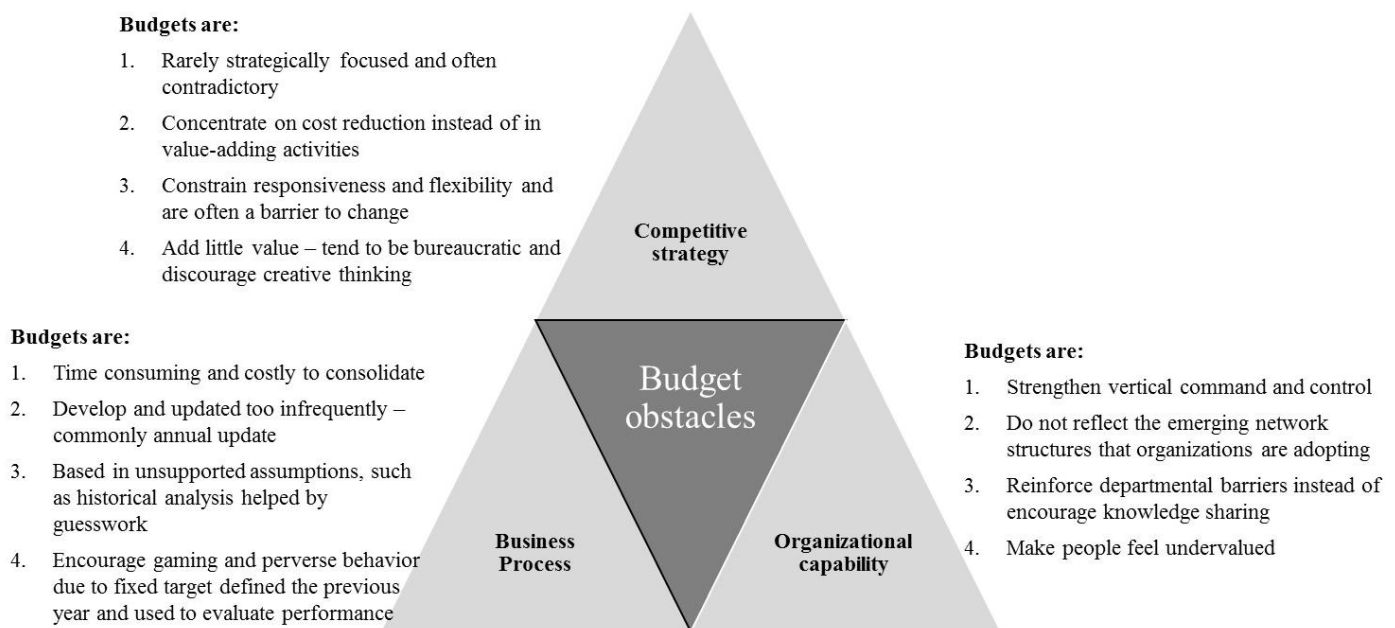
1. Setting targets;
2. Aligning incentives;
3. Developing action plans;
4. Allocating resources;
5. Coordinating across all functions;
6. Monitoring and controlling finance.”

The Traditional Budgeting process should consider the internal variables such as raw materials costs, wages, among others and macro variables such as demand, prices, exchange rates, inflation, numbers that has impact in the budget companies (Wallander, 1999). Budget has been also defined as a system of rules leading the decision-making, from its formulation, approval and its execution (Ehrhart et al., 2006), that can frequently consumes six months of management time in negotiations, planning, and target-setting (Jensen, 2003). Other definitions are systematized in Appendix A - Table 1.

The principal functions for which the Traditional Budgeting have been designed, more than a century ago, was to coordinate financial activities across all organization, to communicate financial expectations and to motivate managers to act in the company’s interest (Horvath and Sauter, 2004), to align incentives, develop the rational of allocating resources, set targets and develop action plans (Player, 2009). These functions are different and so the Traditional Budgeting is used to achieve different and complexes purposes, each one with very specific focus and motivations. Due to this fact, the Traditional Budget processes is in many cases suggested as a tool that is harming companies instead of helping them (Jacobs, 1974) to improve their performance.

The Traditional Budgeting process is frequently associated to classic models of performance management companies, which have being questioned about the suitability face to the globalization market, with rapidly changes that companies are facing nowadays. The obstacles that many authors agreed are related to the three main dimensions impacted in organizations, as illustrated in Figure 1, (i) the Competitive Strategy of organizations, (ii) the Business Process and the (iii) Organizational Capability (Neely et al., 2003).

Figure 1 - Synthesis of main Traditional Budgeting process obstacles



Source: Author adaptation from Neely et al. (2003)

First, in the Competitive Strategy field, problems raised are related to corporate strategy that commonly is disassociated, and can even be contradictory, to the budget process guidelines, leaving companies unable to implement the defined strategies, or easily adapt their activity to market dynamism or to satisfy costumer's needs. As consequence companies stay focused in activities that add no value or, worst, destroy value.

Secondly, in Business Processes, companies with Traditional Budgeting model tends to spend 2 to 6 months (Deloitte, 2013) with full teams focused in it, a mix of front-office (e.g. Business Units) and back-office (e.g. Planning and Control). The teams has to produce, review, discuss and consolidate the budgets, which are mainly based in historical analysis and basic assumptions and that tries to predict the future for the next year. Often, in the first months of the predicted year, the budget becomes outdated and several forecasts

(e.g. 3, 4 or 6) are done, yearly, to update the budget information, with the unpredicted events that wasn't covered in the annually budgeting process done since September of the previous year. Additionally, absolute targets, that are defined above the predictions done, in the budgeting process are frequently used to evaluate performance of employees for the compensation bonuses. This induce managers to start negotiating targets to benefit from higher bonuses, losing focus on adding value and behaving in the company best interest, to behave according it's individual interests.

Finally, the third dimension, the Organizational Capability, involves change and adapts the structure to the new challenges that are coming up. Frequently, the budgeting process assumes a barrier roll in company's communication and knowledge sharing between departments which happen when budgets are seen as a rigid commitment to follow and employees are responsible for deviations in periods of reviews or at the end of the year and it will impact their final year bonuses. Complementary disadvantages about the Traditional Budgeting process can be seen in the Appendix A – Table 2 and 3, where are presented several authors contributions.

2.2 Alternative performance models

The Traditional Budgeting process have been described as being incapable of meeting the organizations demands within the current environment of constant changing and high competitiveness. Mainly authors agreed about the budget process disadvantages for companies and potential solutions have been studied. In this study we will present the main theories and principal models, suggested better solutions to substitute or complement the Traditional Budgeting process.

Mainly, the authors suggests different models centred into two theories: (i) abandon the budgeting process and implement substitute process or (ii) keep the budgeting process and implement complementary process. The first theory is commanded by the Beyond Budgeting model, which defends a completely disruptive model and the second theory, that has a main models the Advanced Budgeting and the Better Budgeting models, advocates a gradual evolution.

The three models identified as alternatives to the Traditional Budgeting model are mainly differentiated by the degree of disruption from the classic model of budgeting. Even demonstrating dissatisfaction with the Traditional Budgeting, the radical changing process

is only implemented by a small number of companies. Most companies prefer to implement changes in their budgeting process, instead of completely abandoning it. According to Rickards (2006), 78% of Australian surveyed companies was planning to implement changes in their process against 12% that was intending to replace the process altogether.

The three models suggested to improve the planning and control performance in organizations will be detailed in the next sections beginning with the less disruptive process to the higher one, so firstly we will talk about the Better Budgeting Model, secondly the Advanced Budgeting Model and finally the Beyond Budgeting model.

2.2.1 Better Budgeting Model

The dissatisfaction about the Traditional Budgeting process is far more spread, than the companies that went through a structural and cultural project such, as the implementation of Beyond Budgeting model. For that reason, several alternative models, less disruptive from the classic point of view, are commonly discussed in the new management performance models field.

From previous studies, it was possible to assess that the general dissatisfaction identified in companies is related mainly to the impact of the obstacles the Traditional Budgeting model brings to companies in a daily bases and that companies intends to change their current process in one of three ways:

- Improving their planning and budgeting processes to contradict the disadvantages of Traditional Budgeting of gambling and forecast with low levels of accuracy (e.g. BP);
- Keeping their budget process but with improving information technology in order to updated and more accurate data (e.g. Cisco Systems);
- Abandoning the annual budgeting process and implemented an alternative process (e.g. Borealis / AS) (Neely et al., 2003).

The Better Budgeting model is the less disruptive model, being a next natural step from the Traditional Budgeting model, for companies that select to moves from the Traditional Budgeting in a gradual manner. The Better Budgeting model improves the functional and institutional aspects of the Traditional Budgeting, namely keeping focus in core or main

processes and planning from the ground up instead of analysing historical data (Rickards, 2006).

The distinction between the Better Budgeting model and the Advanced Budgeting model is not so clear, in fact, the main difference is that Better Budgeting leads to smaller changes than the Advanced Budgeting model.

Some of the principal alternative tools, considered by authors as being the better ones to complement or even substitute the Traditional Budgeting process are the rolling forecast/budget (Sivabalan et al., 2009; Hansen et al., 2003; Horvath and Sauter, 2004; Boesen, n.d.; Player, 2009; Clark and Mcracken, 2008; Hansen, 2011), the activity-based budgeting (Hansen et al., 2003; Boesen, n.d.; Hansen, 2011) and also some practices of Beyond Budgeting model such as the balance scorecard, benchmarking, etc. (Hansen et al., 2003; Rickards, 2006; Hansen, 2011).

Relative to Better Budgeting model, Neely et al. (2003) have identified this model associated with five techniques that help to improve the budgeting process which are: (i) the activity based budgeting, (ii) the zero based budgeting, (iii) the value base management, (iv) the profit planning and (v) the rolling forecasts or budgets. However the improvement of some budget disadvantages creates other obstacles as well. For example, the first two techniques, the activity based budgeting and the zero based budgeting, improves significantly the accuracy and focus of budgets, but they involve the same or more work than the traditional process. According to the value base management and the profit planning techniques, they are implemented in very few cases, as mentioned by Neely et al. (2003), and so does not exist significant evidence in order to assess whether this tool simplifies or not the Traditional Budgeting process. The fifth technique which aggregates two different tools, the rolling forecast and rolling budget, is proposed by some studies as the tool with more potential to significantly improve the budgeting process, being already implemented by a large number of companies improving the accuracy of their forecasts and overcome the time-lag problem frequently criticized about the Traditional Budgeting process (Neely et al., 2003). The main difference between these two tools is that rolling budgets leads to smaller changes while the rolling forecast goes beyond the rolling budget, getting more accurate financial and non-financial predictions (Sivabalan et al., 2009).

The rolling forecast process methodology is suggested as bringing significantly advantages, such as, companies can gain greater visibility into the business, allowing the Management to anticipate earlier unpredicted events and provide a clear picture of businesses financial performance. However, it requires permanent resources to manage it. This methodology helps improving the focus in key drivers rather than on data input while reducing the focus on current year and spikes in constant workload (Player, 2009). Additionally, often the rolling forecast is not used for compensation purposes to avoid encouragements of gaming the system (Boesen, 2000).

Nevertheless, some studies suggest that rolling forecast doesn't perform better than Traditional Budget in an environment of low uncertainty. However, if the variables that impact in the organization are volatile, the use of rolling forecast allows to make better decisions (Haka and Krishnan, 2005). This phenomenon is explained by less clear goals defined by the rolling forecast, due to the frequency of updating, which have more impact when the company's uncertainty environment is high.

In such cases, where the Traditional Budgeting and the rolling forecast are combined in the same period, the risk of multiple goals rises, with potential impact in reduction the managers commitment to reach the budget target-setting (Haka and Krishnan, 2005).

2.2.2 Advanced Budgeting Model

An alternative model suggested to complement the Traditional Budgeting process is the Advanced Budgeting, which is also supported by a budget process simplification, with the purpose of increasing the budgets flexibility through rolling planning and self-adjusting goals. It includes clear goals derived from the organization strategy, market and benchmark orientation (Rickards, 2006). This model can be viewed as the second step for companies that want gradually improve their budgeting process.

The Advanced Budgeting connects two important dimensions that are commonly disassociated in Traditional Budgeting process, the budgeting process and the organization strategy. Horvath and Sauter (2004) suggest six guiding principles to optimize the budgeting process under the philosophy of Advanced Budgeting model, the same principals of Beyond Budgeting model. First, start with the budget alignment with the organization strategy, tools as the balanced scorecard can help in focusing, communicating the strategy and give directions to the management, which will allow to link their action

plan to the organization strategy. Second, the link of non-financial indicators with the budgeting process is important, because management systems have to focus in financial and non-financial value drivers and they are synthesized in this budgeting tool. Third, the reduction of budget details is essential, to turn it into a kind of “light budget” with only the critical information, received by the direct interested in each indicator, information or report. It allows making the budget more flexible and rapidly adjustable to changes in environment and with it turns the organization faster to respond to market changes. In fourth place, Horvath and Sauter (2004) identify the transformation of fixed budget into a dynamic budget, to easily turn it adjustable to the competitive market changes, setting direction for the near future and not only for the end of the year. In state-of-the-art budgets approaches, the five-quarters rolling forecast will help managers to think short and mid-term. Fifth, the transformation of absolute targets into relative targets to reward people is the approach that motivates the right behaviour, because it compares the managers’ performance against relative targets, which should be self-adjusting performance measures when possible. And finally, the sixth principle is the increase of focus in process instead of organization units, departments or performance areas, which reflects the idea of managing processes to drive success in the marketplace and so with client orientation. These principles guides to important improvements, that can be done step by step and with it, reduce the degree of disruption comparative to the current process implemented in companies.

2.2.3 Beyond Budgeting model

The third model presented is the one that suggest that companies should abandon completely the budgeting process and implement substitute tools, which means applying the Beyond Budgeting model.

Supported on the main Traditional Budgeting disadvantages (e.g. inefficiency, costly, time and resources spending, rapidity to become obsolete, bias on focus, etc.), some companies contemplated abandoned the budgeting process altogether (Rickards, 2006; Ekholm and Wallin, 2000). In recent years the implementation of substitute processes such as rolling forecast or rolling budget, activity-based budgeting and others beyond budgeting practices become more frequent (Hansen, 2011).

The companies that have abandoned the budget process altogether, includes a cluster of Scandinavian companies, such as the Borealis, the Denmark fourth largest polyolefin plastics producer, the Svenska Handelsbanken, the largest bank in Sweden, or the Skandia, a 7000 employees Sweden financial services company.

Other companies such as Shell, BP, AstraZeneca, Ford Motor Company are also moving away from Traditional Budgeting process (Neely et al., 2003). This trend is becoming more common, but most of these companies are not abandoning the annual budgeting process they are transform or complement it, by improving the budget process to accomplish higher yield of benefits relative to the large amount of resources consumed (Rickards, 2006), implementing the best practices detailed previously: the Better Budgeting model and the Advanced Budgeting model.

The Beyond Budgeting model have been developed since the end of decade of 90's, since, Hope, Fraser and Bunce have created in United Kingdom, in 1998, the Beyond Budgeting Round Table (BBRT), with the purpose of helping organizations all over the world, to rethink their performance management model and go deeper and rethink their market, business strategy and competitiveness (BBRT, 2015). The main boost to research on this topic and the creation of the BBRT was the believing that, as Hope said in an interview in 2004 (Daum, 2004):

“Recording assets and liabilities, costs and revenues does not tell you how companies are creating value in today's information and knowledge economy”.

In 2010, the Beyond Budgeting Institute was reaching 150 members all over the globe, mainly from North America, UK, Ireland and the Nordic companies, demonstrating greatest interest in the best practices of Beyond Budgeting model.

Nevertheless Scandinavian companies tend to lead the process of implementing the Beyond Budgeting model, this implementation is more and more spread in other continents.

More than the simple implementation of new tools to measure and manage the organization's performance, the Beyond Budgeting Model is focused in the change of organization's culture and make the company follow a more correct attitude that will benefit each Business Unit and the Organization as a whole. And so, the focus on controlling revenues and detailed costs becomes less relevant while the control and monitoring of value drivers defined according to the strategy of the company, the implementation of such strategy, the analysis

of the value-adding processes and a better knowledge of management becomes much more important (Hope and Fraser, 2003).

The Beyond Budgeting model brings two main differences compared with the Traditional annual Budgeting process. The first, it provides a more flexible tool to the management deal with different contexts along the year, when the targets becomes dynamic. This is achieved through a frequently revision of target goals that are linked to benchmarking performance (peers, competitor and prior periods). Those targets can be internal or external and are calculated through comparable data (e.g. share of current fleet). The second main difference is the decentralization of the management process that gives managers more freedom to make decisions that leads to the goals purposed. This freedom increases the accountability, the motivation, and the productivity of managers and so potentiates better customer service (Hope and Fraser, 2003).

The Beyond Budgeting model is the more disruptive model that companies can implement, but it also the model that seems to lead to better results. First, it gives solutions to the main disadvantages of Traditional Budgeting identified in the chapter 2.1. Second, induces the organizations to rethink the way they are managing their performance as a whole. It allows organizations to find new ways of planning, controlling and even rewarding their Business Managers. The Beyond Budgeting model implementation helps also to create a decentralized management culture, instead of the command and control organizations, that commonly runs budgeting processes. Nowadays, more and more management models are focused in decentralized organizations, because they allow the companies to respond as fast as the customers are expecting to be satisfied.

The main benefits of decentralized organizations that supports the Beyond Budgeting are the increase focus in innovation, as more (human) resources are available, the faster response to market changes, a better resources allocation according the real needs of each unity, higher dinamism and flexibility and also the increase in ethical behaviour since group goals start to be the individual goals as well. All of this will lead to a better strategic alignment and financial results that will lead to higher value created (Hammer, 2010).

Developed by the Beyond Budgeting Round Table, the Beyond Budgeting model is supported in 12 principles that result from the analysis of best practices verified along the years in the companies followed by the Institute. The BBRT intends to help successfully

implementations of this new management model in different companies. As we can see in the Figure 2, those twelve principles are segregated into two distinctive dimensions, with very different degree of ease of implementation. The first six principles are mainly focused in the reformulation of control and performance management system, to enable the front-office teams to be more flexible and adaptable, to the competitive context and costumer needs. The second six principles are focused in decentralization and leadership, in other words, the responsibility scope that organizations gave to their employees, with the purpose of being more responsive to the dynamic environment and making them more accountable to continuous improvements (Hope et al., 2015).

Figure 2 - Beyond Budgeting Model Principles

Structure changes	Cultural changes
<p>Goals and rewards:</p> <p><u>7. Goals</u> - Set ambitious medium-term goals, not short-term fixed targets</p> <p><u>8. Rewards</u> - Base rewards on relative performance; not on meeting fixed targets</p> <p>Planning and controls</p> <p><u>9. Planning</u> - Make planning a continuous and inclusive process; not a top-down annual event</p> <p><u>10. Coordination</u> - Coordinate interactions dynamically; not through annual budgets</p> <p><u>11. Resources</u> - Make resources available just-in-time; not just-in-case</p> <p><u>12. Controls</u> - Base controls on fast, frequent feedback; not budget variances</p>	<p>Governance and transparency</p> <p><u>1. Values</u> - Bind people to a common cause; not a central plan</p> <p><u>2. Governance</u> - Govern through shared values and sound judgement; not detailed rules and regulations</p> <p><u>3. Transparency</u> - Make information open and transparent; don't restrict and control it</p> <p>Accountable teams</p> <p><u>4. Teams</u> - Organize around a seamless network of accountable teams; not centralized functions</p> <p><u>5. Trust</u> - Trust teams to regulate their performance; don't micro-manage them</p> <p><u>6. Accountability</u> - Base accountability on holistic criteria and peer reviews; not on hierarchical relationships</p>

Source: (BBRT, 2015)

Although, the implementation of any project in companies, with command and control culture with management performance supported in Traditional Budgeting process will be difficult to achieve, the first six principles are easy to implement as they are focused in processes, tools that support the planning and control activities that can be with more or less difficulty redefined and implemented with new tools, new technology information systems and new processes to review the resources allocation, the goals and rewards schemes. The most difficult transformation is the one that impact the organization culture, where is expected that Board, Managers, Business Units, operational teams from front-office and back-office services faces new values, where the transparency of the process become clear, the trust and governance of teams completely changes, the accountability turns into an holistic criteria, in summary, all way that the organizations are comfortable

doing their job is transformed to something unknown, creating uncomfortable zones (BBRT, 2015).

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Summing up, in this dissertation we intend to analyse an uncommon example of Beyond Budgeting model implementation in a Latin European country (Portugal). The case analysed, *Nors*, involves the first company in an Iberian country to adapt such model. The analysis of a specific case is justified by the small number of companies that have adapted a radical move from the Traditional Budgeting model which makes impossible the use of other type of methodology such as regression analysis. Moreover, the small number of observations can't justify *per se* the lack of empirical research on this area and so this dissertation will firstly focus in the Traditional Budgeting obstacles and consequences that the company faced by having the budgeting process implemented and secondly detailing the decision making to abandon the classic process and implement a completely new model, based in significantly different processes and culture, the Beyond Budgeting model.

3. Methodological Aspects

3.1 Research Approach

The main goal of this study is to understand why the Traditional Budget process is abandoned by companies, their main motivations as well as the main obstacles to implement an alternative model. To attain this objective, the scientific methodology selected from the two principal research methods, deductive reasoning and inductive reasoning, was the inductive reasoning, based in a singular qualitative case study, the case of the Portuguese organization, *Nors*, which recently have passed through a project of transformation the Traditional Budget process into an alternative process to plan and control the company's performance.

This study can be categorized as an instrumental case study based in five face-to-face interviews and documentation analysis to triangulate the data collected.

The deductive reasoning can be defined as the methodology where the researcher construct hypothesis based in the strength of some theories and the conclusions are made exclusively from tested reason proved by the study (Karlsson and Jonebrant, 2011). The inductive reasoning method try to purpose believable conclusions obtain through theory and empirical evidence that are plausible even if others explanations can also be applicable to the analyzed phenomenon (Blumberg, Cooper and Schindler, 2008 cited in (Karlsson and Jonebrant, 2011)).

3.1.1 Case study

Case studies as qualitative methodology of research studies, seems to be preferred when the research questions are focused in 'why' and 'how' questions, when the phenomenon is contemporary in some context, when the investigator have little control on the phenomenon and when the boundaries between the phenomenon and the context are not perfectly clear (Yin, 2009). The case studies can allow retaining holistic and meaningful characteristics of real-life events under study and can be defined as:

“(...) the central tendency among all types of case study, is that it tries to illuminate a *decision* or set of decisions: why they were taken, how they were implemented, and with what result” (Schramm, 1971 cited in Yin, 2009).

As Stake (1995a) says, the case study is the combination of the process of learning from the case under study and product of our own learning during this process.

The methodology that will be followed in the case study of this dissertation, with the purpose to warrantee the research validity, is based in four steps, as it can be seen in the Appendix B. The first phase is the case study protocol design and conduct the case study, which will be detailed in this chapter (3), after that, the case study evidences will be analyzed and presented in the chapter 4 and the conclusions and recommendation will be detailed in the chapter 5.

The qualitative methodology has been criticized since decades, being considered initially not as a formal research method at all but as the exploratory stage of other research strategy, or being confused with ethnographies or with participant-observation as a data collecting techniques and being omitted in any further discussions of case study (Yin, 2009). In other hand, nowadays the case study strategy is considered the most appropriate tool in some situations, such as critical early phases of a new management theory, when key variables and their relationships are being explored, and because case studies are commonly carried out with high proximity between the researcher and the participant impacted with the study phenomenon, that influence, take decisions or simply execute, this method become the indicated to test real management situations and create managerial relevant knowledge (Gibbert et al., 2008).

It is accepted today that case studies are a tool that allows to generate and test theories providing new insights in areas like strategic management (Penrose, 1960; Chandler, 1962; Pettigrew, 1973; Burgelman, 1983 cited in Gibbert et al., 2008). It became so the ideal methodology to develop knowledge in some research fields and that's why it turn into a recognized research methodology.

As Yin (2003) says it only depends in the type of the research questions, the control that the investigator can have above the study event and the focus on contemporary phenomenon, the better scientific research method can perfectly be the qualitative methodology based in a case studies.

For Pettigrew (1973, cited in Gibbert et al., 2008) the main difference related to other research methodologies is that case studies search to study phenomena in their contexts, rather than in independent of context. But as any quantitative or qualitative research

designs, the case study analysis has strengths and weaknesses. This methodology doesn't have specific requirements or guidelines, allowing the researcher to adapt all the design, inclusive the data collection procedure to the research questions, which is identified as strength. However this flexibility can also results in poor cases studies, reflecting a potential weakness of this approach (Meyer, 2001). Some other advantages are the holistic view about the scope under study, which allows observations into different perspectives and in its own environment and context. It is also suggested as better approach to research some information that are impossible to reach through quantitative approaches (Meyer, 2001). In other hand, this approach have been criticized for being difficult to generalize, sometimes even to turn the study reliable allowing to attain the similar conclusions if repeated. The potential information-processing biases and the unit of analysis definition can be hard to define and is also listed as potential limitation of this methodology (Meyer, 2001).

But focused in the main strengths, it was the selected methodology to follow in this study, because it allows to design according to the research questions, define exactly the scope and boundaries of the study and with no purpose of generalization, but in deep explore and understand the specific case study analyzed, it reveals as the better approach to follow, keeping in attention the systematic procedures to implement and don't fall into the case study pits falls.

A case study can be categorized as intrinsic, instrumental or collective according to Stake (1995a) and Baxter and Jack (2008). Intrinsic if the cases studies are cases in which the researcher have close interests in understanding better the particular case, instrumental if the case is used by researchers to provide insights about the issue or theory under analysis, being the case a secondary interest, or collective if the researchers select several cases to better understand the phenomenon under study, it can also be explained as an instrumental case extended to several cases (Stake, 1995a).

In this study the chosen category was the instrumental, because the main goal of this dissertation is to better understand the reasons why companies start to thinking about abandoning the budgeting process and implement an alternative or additional tools to better manage and control the organizations performance using as example the company *Nors* case, and compare with the theoretical literature described in the chapter 2.

Since case studies methodology has been considered as a formal research methodology it have experienced evolutions, some authors have been developing robust systematic procedures to be followed by researchers, helping them to develop a trustful study based in case studies, and when the procedures are followed by researchers, the method is well developed and tested as any other scientific method (Tellis, 1997). The systematic procedures required several main steps, described by Meyer (2001) as data collection, data analysis, data validity and reliability. A complementary description was defined by Baxter and Jack (2008), who details the stages to be tracked in a case study design by the following:

- Define the research questions;
- Define the unit of analysis;
- Define the study scope and boundaries;
- Define the type of case study (intrinsic, instrumental, collective and if is a single case study, a case study embedded units or multiple-case study);
- Consider the prepositions if needed;
- Define the application of the conceptual framework;
- Define the logic linking of data to prepositions;
- Define criteria for interpreting findings.

3.2 Data collection methods

The data collection can be focused in gathering qualitative or quantitative information according to the object under analysis. The quantitative information is usually known as expressed in figures or numbers also called hard data. In other hand, the qualitative data enables the collection of detailed and relevant analysis and broader understanding of the specific issue analyzed, being more recommended when working with inductive research because it allows to collect general insights about the context itself and the specific object under analysis (Eneroth, 1984 cited in Karlsson and Jonebrant, 2011).

As this study follows an inductive research methodology and is categorized as instrumental, the qualitative approach was selected as more appropriate, mainly because the goal of the research questions is to understand and find patterns in one specific case, representing frequently immeasurable qualities where there's no strictly defined hypothesis to be tested and proved as true or false. This approach also gives the flexibility to

interviewees to deeply expose their own thought, viewpoints and opinions about the phenomenon under analysis, which is the main richness of this approach.

Additionally, this study will be supported by primary and secondary data, the primary data will be collected through the semi-structured and unstructured interviews into the company being analyzed, *Nors*, data which will be gathered for the first time by the researcher. The secondary data is the information gathered through literature, such as theories, principles, definitions, and information about the company and the specific project under analysis.

The data collection procedures should be guided by the research question and the design chosen. The case study approach typically combines data collection methods such as documentation, archival records, interviews, questionnaires, participant observation and direct observations (Yin, 2009). The main purpose is to provide theory triangulation, which offers stronger evidence of constructs and hypotheses, it also allows to clarify meanings and confirm the repeatability of observations or interpretations bringing (Stake, 1995b). However, the choice of data collection methods is also subject to constraints in time, financial resources, and access to the object wished to be analyzed (Meyer, 2001), for this study, the first three collection methods have been handled to gathering data, which are more relevant and adjusted methods for non-sociological investigation (Tellis, 1997).

For the documentation and archival records, any researcher has to take into account the potential usefulness of a large amount of documents that can be gathered. So, it's essential that these study reports, letters, agenda, or others be carefully reviewed to avoid incorporating incorrect data. About the archival records, they could be service records, maps, charts, list of names, survey data and should be meticulously reviewed this origin and accuracy to be included in any study (Tellis, 1997).

The documents and archival records analyzed in this study was mainly documents about the company under study, *Nors*, given by the company itself or gathered in the internet in the institutional site, such as the Financial reports of 2012 and 2013. These documents, served as substitutes for gathering information about activities that as researcher it was not possible to observe (Stake, 1995b) or by the interviews the information was not detailed at this level, being more focused in subject that weren't present in documents available to analyses.

The three main typology of interviews are unstructured, semi-structured and structured interviews (Cooper and Schindler cited in Bruwer, 2013). The main difference between these three typologies is the freedom given to the respondent of questions and topics where the first is very flexible and can be customized by each participant, focused in open questions, the second is a mix between the structured and the unstructured interview and the last typology is stricter, similar to a questionnaire where the closed questions are formulated before the interview and the objective is to answer to all these questions during the interview (Smith and Eatough, 2007).

The main used typology of interview has been a mix of semi-structured and unstructured interviews. The semi-structured interview is used because the researcher has a set of questions to follow, but the interview will be guided by the schedule. Additionally, the unstructured typology is important due to the explorative nature of the study, in which we intend to explore the interviewee's perspective and find out the reasons why they have that specific perspective. For that, the better approach is to have a high degree of freedom imposed to the interviewees with precise guidelines but with dominance of open questions (Meyer, 2001). According to the inductive approach the freedom given to the participant enrich the interviews information collected in interviews, due to the diversity of opinions and viewpoints that we can gather about the same theme (Karlsson and Jonebrant, 2011).

In this study the qualitative interviews follow the semi-structured and unstructured typology with the objective of comparing the information gathered from different participants, as a way of ensuring the validity of the information.

During the interviews, tape recorders were used to increase the level of accuracy and richness of data collected and also to facilitate the data analysis.

3.3 How to make a trustworthy study

In any scientific study it's crucial to objectively and critically challenge the integrity of the sources to test their truthful.

To avoid the problems of validity that are commonly suggested in qualitative studies, especially when researcher collect the data alone, which is the case of this study, we follow the four systematic criteria of quality in any design, suggested by Yin (2003):

1. The objectivity/inter-subjectivity to construct validity;

2. The internal validity;
3. The external validity;
4. And the warrantee of study reliability.

Relatively to the objectivity problem of a qualitative study, which happens when the researcher lose focus due to the engagement developed with the organization, the people or the process, this study maintain the most objective possible through conducting the interviews with different levels of interlocutors in the project, which are the main project responsible (Director of Planning and Performance Management Department), the main Board sponsor (CFO), Planning and Performance Management team elements and an element impacted by the project from an independent Group business unit. This diversity of interviews allowed collecting primary data while confronting responses from different persons to the same questions. Additionally, during the analysis of data, the author kept in mind that all the interviewees are from the same organization which can reduce the objectivity in their answers. The selection of these employees over others can also have impact in this study's conclusions, because if other employees would have been selected, different opinions could have been obtained. Nevertheless, we believe that the selected participant are the most important, from the point of view of building, approving and implementing this project. According to a different project perspective and although all employees have been impacted by the project we could only select one due to time constraints and organization's availability. Once again this could be a limitation of this study, since if different employees would be interviewed, different opinions could have been reached.

According to the validity construction tests, the main steps that any researcher must follow is to select specific type of changes that are to be studied compared with the original situation and proves that the selected measures of these change truly measures the specific type of changes been analyzed. To warrantee the construct validity Yin (2003) suggest the use of three tactics: (i) use several sources of evidence, (ii) establish a chain of evidence and (iii) have the draft of the case study report reviewed by the key informants. From the tactics identified, this study follows the first since the beginning of the study and the last one after the interviews when the data collected have been validated by the main responsible for the *Nors* project.

The internal validity refers to the logic validity that a case study must be tested by, where there must be a causal relationship between variables and results (Gibbert et al., 2008). This test should follow three steps, first the research framework has to be clear to demonstrate the correlation between the variables and the results, second the researcher should compare empirically observed patterns with the predicted ones, observed in other studies or case studies and third the theory of triangulation in the interviews and with additional documents analyzed allows the researcher to verify findings from multiple perspectives (Gibbert et al., 2008). Trying to contradict the common criterion in qualitative studies, in this study we open it to scrutiny, amplifying the advantages that this methodology allows to, in particular through the several sources that permitted to do cross-checking and amplify the information gathered as suggested by Meyer (2001), keeping in mind the intention to eliminate or reduce as much as possible the ambiguity and contradictions to establish strong relationship between the analyzed variables.

The external validity can be attained through the development of theoretical relationships that can lead to generalization (Tellis, 1997). Generalization can be done by analyzing several case studies, rationally chosen by the researcher and linked to cogent theoretical reasoning, that are tested in several contexts and leading to the same results, these results can be accepted to a larger sample of similar cases and can be logically replicated over other cases and when applicable from four to ten cases can be considered as a good basis for analytical generalization (Gibbert et al., 2008). The present study is focused in the analysis of a single case study providing a deeper and richer look about the *Nors* case, don't being the researcher's ambition finding out a way to generalize the findings, but presenting facts that can help other companies to develop similar projects in their companies.

The last test and one of the most important recommended by Yin (2003) is the reliability test, which defends the absence of random errors and biases, keeping the research process clear and reliable for future researchers. The safest way to make a study reliable is to clearly detail all the procedure followed, in the maximum detail about all the process until the preparation of the data gathering until the study conclusions.

In this way, we start by describing how the contact has been done in chapter 3.4, the interview script that was guided in the interviews is presented in Appendix C.1. The interviewees have been chosen according to the experience of their activity and

responsibilities in the project, being comfortable with the subject and able to response the questions. The conversations have been recorded and during the interviews the researcher have make the effort to not intervene and influence the answers. The identification of the interviewees has been done carefully and is detailed also in Appendix C.2. Their responses have been transcript after the interview without influence of body language, irony, and tone of voice or any correction of unfinished sentences or pauses, as can be seen in Appendix C.3. The information collected has been validated by the key informant of this case study to avoid biases due to incorrect interpretations. This detail, have the purpose to allow the research be repeated with the same methodology and leading to the same insights. Also in the empirical analysis and conclusions and discussion has done in a systematic way, with procedures that can helps to assure the reliability. For that, it was followed the Yin's (2003) recommendations for an exploratory study, the linear-analytic, comparative, chronological or theory building method to structure the case study report (cited in (Burns, 2012)). The most adequate method for this dissertation was defined as a mix of comparative with theory building, in order to compare the several points of view gathered in the different interviews according to the logic of the theoretical framework defined.

3.4 Criteria for selecting the case study

Nordic organizations, since decades have implemented projects in their organizations, to reformulate their management performance model while fighting the disadvantages regarding the Traditional Budget process. These companies are characterized by large degrees of delegation in management and decision making business, characteristics that are not suggested as dominant in companies of Western Europe companies, reason proposed as the principal for the Beyond Budgeting model don't being spreads up in Latin Europe.

However, there's a Portuguese company that have done make this step in 2012, a change that has been label as a successful case in Western of Europe.

Knowing about this real-life case, which was geographical accessible for the researcher, the Company was contacted, in order to assess their willing to participated in this study.

To have a valid data collection and better understand all the perspectives of the project in the Company, some criteria was establish with the main company interlocutor, since the first contact. The primarily criteria established was that the first interview should be with

the responsible for the project implementation, the Director of Planning and Performance Management. This first interview was a semi-structured interview in the beginning that turns into an unstructured interview, in order to deeply explore and collect information with impact in the next four interviews.

The following interviews were with the:

1. The main project Board sponsor, the CFO;
2. One close participant in the project as member of Planning and Performance Management team;
3. A Business Manager that have been impacted by the project and have followed the project since the beginning;

Additionally, it was possible to do a fifth interview that compiled the last two perspectives in one single person, with a participant that was since the beginning of the project a member of Planning and Performance Management team and more recently have been transferred to a Business Unit, being now directly impacted by the project in other perspective, the second one analyzed.

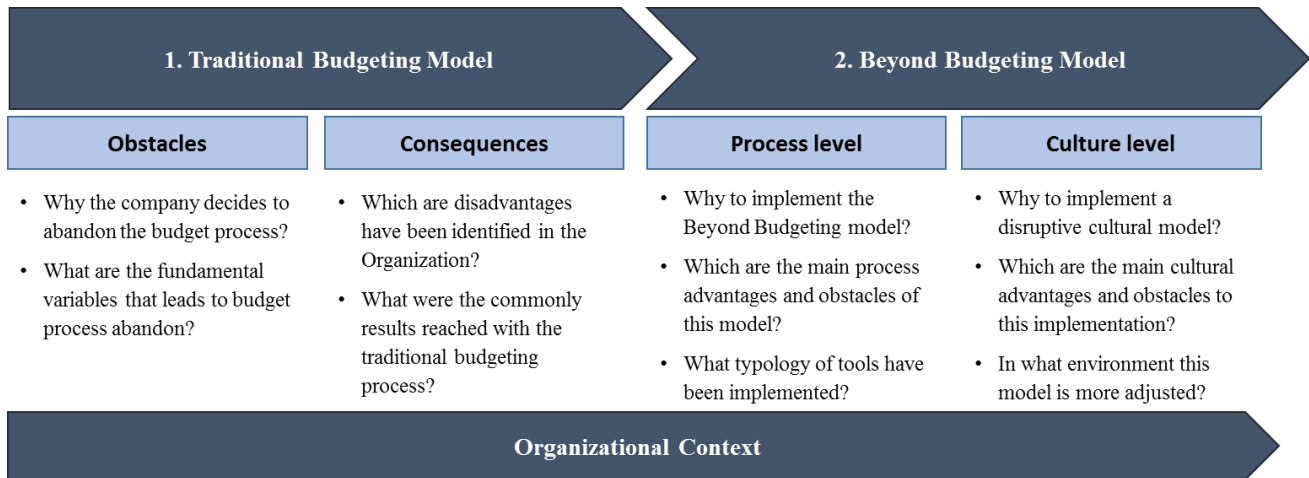
After the initial contact, a pre-screening meeting was scheduled, which was done for the first two interviews and followed by the data-gathering interviews. For the other three interviews, it allowed to prepare the interview script taking into consideration the information previously collected.

The face-to-face interviews took place during the months of March, April and May of 2015, in the company headquarters in Porto and were transcript and analyzed during the months of April and May, being the findings presented with detail in the next chapter 4.

To serve as an anchor for the study data interpretation, the conceptual framework was defined as the Figure 3 demonstrates, which intends to accomplish the purposes described by Baxter and Jack (2008), which are (i) identify who will and who will not be part of the study, (ii) describe the relationship expected to reach based in logic, literature and experience, and (iii) provides the opportunity to gather general information and with it construct “intellectual bins”.

The Figure 3 synthetizes the conceptual framework for this study, with the main steps and guidelines research questions that were followed in the empirical analysis.

Figure 3 - Conceptual framework to study Traditional Budgeting vs. Beyond Budgeting Model



Darwin Project:

- Organization overview; Project description; Implementation activities; Main achievements

Source: Author compilation

The conceptual framework is a tool defined to help and orient in the data gathering and in interpretation, but it isn't a static structure, it should be developed and completed with the study progress and the relationships between the proposed constructs will be revealed in the data analysis. The conceptual framework main advantage is the possibility of during the study return to the initial prepositions and so reduces the risk of going out of scope. On other hand, as researcher we have to keep in mind that the conceptual framework can limit the inductive approach, if we get to driven by the framework.

In all five interviews made for this study, the researcher carefully followed the guidelines indicated by Yin (2003) to warrantee the significance to scientific contribution.

3.5 Brief description of the selected case study

The first interview was with Manuel Ferreira, the current Director of Planning and Performance Management Department, he was the main responsible for research, alternative models to substitute the annual budgeting process. In the second interview, Susana Fonte gives us a participant / observation perspective, as member of Planning and Performance Management Department. Then Ana Freitas, was able to talk about the two different project perspectives, firstly as a member of Planning and Performance Management Department and secondly as a Business Unit impacted participant, current function of Ana in *Nors*. The Chief Financial Officer, Rui Miranda, was the following interviewed, he was one of the main sponsors of the project within the Board Council and

believed in the project since the beginning. Finally, the last interview was done with Joana Marques, the ExpressGlass Managing Director, the Group business focused in the repair and replacement of cars glasses.

In the Table 1, we present a synthesis of the interviewees, as well as, some detail about the interviews dates, places and duration of each interview.

Table 1- Interviewees and Interviews details

	Manuel Ferreira	Susana Fonte	Ana Freitas	Rui Miranda	Joana Marques
Interview Date	23.03.2015	23.03.2015	20.04.2015	05.05.2015	05.05.2015
Location	<i>Nors</i> Headquarters – Maia	<i>Nors</i> Headquarters – Maia	<i>Nors</i> Headquarters - Maia	<i>Nors</i> Headquarters - Maia	<i>Nors</i> Headquarters - Maia
Duration	2h30	1h00	2h00	1h00	1h00
Function	Director of Planning and Performance Management	Member of Planning and Performance Management Team	Controller in a Business Unit	<i>Nors</i> Chief Financial Officer	Business Unit Manager of ExpressGlass
Gender	Male	Female	Female	Male	Female
In <i>Nors</i> since	2009	2013	2011	1999	2008

Source: Author compilation

4. Empirical Analyses

4.1 Organizational context

4.1.1 *Nors* presentation

Nors Group starts its activity on 1933 as Volvo distributor. Latter in 1949 *Auto Sueco* was founded being the Group brand until 2013, where an organization restructuration were made redefining the values, the culture and inclusive the Group name, changing it to *Nors*.

Currently, *Nors* core business still focused in Volvo distribution from trucks, construction equipment, cars, buses, agricultural equipment, with an important orientation to services of after-sales assistance, in accordance to the high quality requirements of Volvo, *Nors* attain a prestigious national image in the automobile sector. Additionally, *Nors* diversified its core business to several geographies, but also adding products and services to their portfolio, some of them by acquisitions operations, such as the company ExpressGlass in the business of car glasses. The recycling tires business and manufacture of equipment for the collection and treatment of solid urban waste. In the field of protection solutions, *Nors* is dedicated to insurance mediation and compulsory vehicle inspections.

Nors nowadays, have presence in more than 20 countries, in the four continents and have around 4300 employees all over the world.

In 2014, *Nors* consolidate turnover have reached 841 million euros, which represent a decrease of 0.3% when compared with 2013. The countries that contributes to this result are essentially Brazil (48%), Portugal (27%), Angola (21%) and Spain (1%) (*Nors*, 2014a).

In October 2012, *Nors* passes through a restructuration process in its governance model, based in the principles of decentralized structure, the Group management start to be organized by region, instead of being in a mixed organizational system geography / product, in which *Nors* was supported so far. The main objectives of this restructuration was to accelerate the growth and consolidation in the markets where *Nors* already was presented, allocate them their own support structures dedicated to the several businesses present in each region, giving decision-making autonomy with the purpose of releasing the top management to focus on strategic issues, transversal to the Group (*Nors*, 2012). With this restructuration some synergies have been attain in the management and support

services teams due to the elimination of duplicated functions in the different regions (Fonte et al., 2013).

The new Governance Model defined per region has all the core business of the Group centralized in a unique structure, leaded by an Administrator dedicated to all business present in that region, being each business operational managed by dedicated Business Managers. In this model, the Administrator mission is to monitor and boost the business performance and warrantee the alignment with the Group strategy. On other hand, the Business Managers has the mission of defining the targets, the actions to reach them and anticipate corrective actions and risks. In this way, *Nors* organizational structure is currently divided in four regions, Iberian, Brazil, Angola and Rest of Africa. Additionally, a Ventures dimension was created to agglomerate several business and geographies, due to their dimension, maturity or specificity don't justifies a differentiated monitoring, as we can see in the Appendix D.

As strategic orientation, for the following years, *Nors Group* intends to continue its growth with strengthening actions and consolidation of operations that holds in the various geographies in which it operates and maintain the policy of investments in new regions. This process will be based on two main guidelines, increase the profitability of "core" business and the diversification of its business portfolio in terms of geographical dispersion, but also of products and services sold (*Nors*, 2013a).

4.1.2 Darwin project

Darwin project was the name attributed to the project of abandoning the Traditional Budget process and implementation of the Beyond Budgeting model, based into three principal tools, each one with specific purposes, the strategic map "MyDarwin", the medium / long term financial strategy and the rolling forecast.

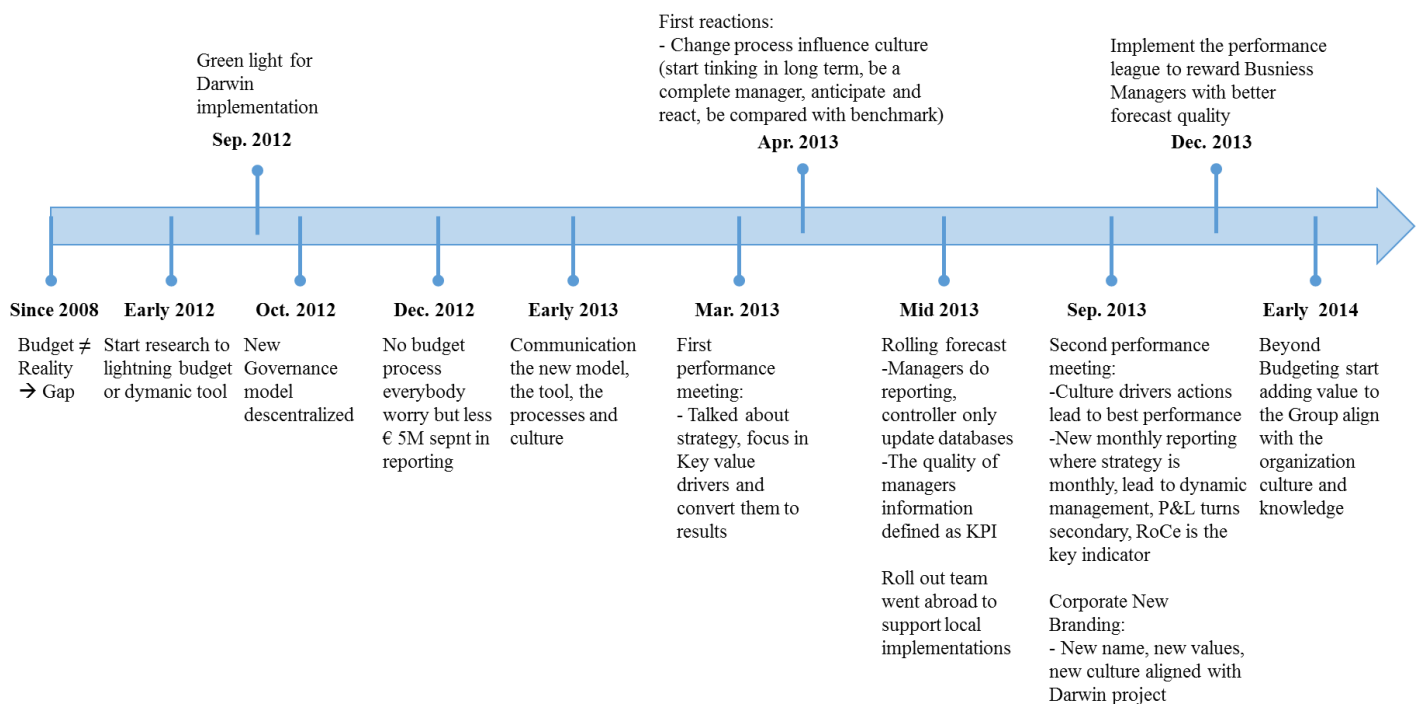
The strategic map "MyDarwin" intends to define the values, mission and ambition for each of *Nors* business, as well as, the way to measure the strategic implementation. The medium / long term financial strategy has the purpose to manage the Group value creation process creating goals and plans for the Market Capital, Human Capital, Structural Capital and Dynamic Management. The financial representation of these goals are made through the projection of key performance indicators (KPI) that have been defined having in mind where the Group wants to be in the next five years. Finally, the rolling forecast was created

with the purpose of representing with financial indicators the dynamic management lead by Business Managers dynamic actions that allows to anticipate the results of the following months (Nors, 2013a).

This structural change of management and performance monitoring system, which *Nors* was the first organization in Iberian Peninsula to implement, allows Business Managers to track their business activity in a dynamic way, focusing only in the critical business factors and setting target in a relative way, being comparable with internal or external benchmarking (e.g. share of current fleet, market evolution, etc.) (Nors, 2013a).

In the Figure 4 we can see the timeline of Darwin project in *Nors*, which identifies the main project activities and Group moments. Since 2008, it shows the Group dissatisfaction with the Traditional Budgeting process and in 2012, *Nors* decided to start looking the state-of-the-art to find better options to substitute the Traditional Budgeting process. The decision to implement the Darwin project was made in September 2012 and in that year the budget process was not carry on for the year of 2013. In October of 2012, the Group has implemented a new governance model, as explain above in the point 4.1.1 of this chapter, decentralizing the organization, aligned with the Darwin project principles.

Figure 4 - Timeline of Darwin Project



Source: Author Adaptation from Nors (2014a).

Since the beginning of 2013 the new model has been communicated to the Organization and after presenting the first meeting and report in March, the impacted stakeholders start to complain, being firstly resistant to the change, and then after the adaptation process, focused in the new Business Managers functions, new indicators to measure performance and new comparison with internal and external benchmarking.

In September 2013, Nors decides to transform the image, values, culture as a strategic decision, aligned with the Beyond Budgeting model implemented, since early 2013 in the Organization.

Since early 2014, the Company start feeling the positive consequences of this transformation process, improving gradually, ever since, all the variables that supports this structural transformation, tools, indicators, etc. and the variables with impact in culture, which have slowly results and needs more time to transform the Organization culture.

4.2 Traditional Budgeting process

4.2.1 Obstacles

The critics attributed to the Traditional Budgeting process by several authors are mostly the same identified by *Nors* interviewees. In Manuel's opinion the budgeting process turns into a useless tool for contexts of constant changing, where new challenges arise every day. Until the 2008 financial crisis, the market context was, for most of the year, stable for *Nors*, with some peaks and off-peaks, that was manageable with a static tool such as the Traditional Budgeting process, that were mainly based in unsupported assumptions and guesswork. Since 2008, the financial crisis intensifies in Portugal, as well as, in the main markets where *Nors* was present such as other European countries, North America and South America.

In Rui's opinion, the Traditional Budgeting process had important limitations even before the financial crisis of 2008, but the Group was comfortable to live with it. The usual goal of increasing 10% in sales year after year, as said by Manuel, was perceived by the Board Council as the expected performance that strategically they wanted for the Group. When expectations were met in a specific year it was considered a good performance year. When the expectations weren't met, the Board found some comfort thinking that doing projections was a hard task and concluded that if the expectations are not met was because

the Business Managers were ambitious during the annual budget, which was recognized as a good characteristic.

The Budgeting process, was inducing some controversial behavior on business teams as they main focus was in managing hierarchical superiors' expectations, as described by Rita, most of the times the projections were approved because board members expected such numbers in the annual budget not because Managers believe they were the real predictions to the following year.

In Joana's perspective, the Traditional Budgeting process was the reason business teams focus their attention in support services instead of core business.

From 2008 until 2012, the Group was feeling year after year, that the Managers wasn't any more comfortable doing the budgeting process for the next year, because after an average of 300 people was focused, during 3 to 4 months, in doing the budgeting process for the following year, in March a new forecast was needed to take into account budgeting deviations, mainly due to market context, such as macroeconomic variables. So the company starts feeling, as said Manuel, that the budgeting process was consuming too many resources comparing to the benefits that was bringing to the Company. This perception perfectly match the budgeting process disadvantages described by Horvath and Sauter (2004):

"It's inefficient. The traditional budgeting process takes too long and consumes too many management resources. Our research shows that senior managers spend about 10% to 20% of their time on budgeting, and finance planning departments spend as much as 50% of their time on it. Yet only a small percentage of these two groups regard the budgeting process as a valuable use of their time".

Several others obstacles, most of them consistent with the reviewed literature, were described by Nors interviewees. For Manuel, the budgeting process was too inflexible becoming pointless every year in February or March. Susana classifies the budgeting process also as inflexible, that rapidly became obsolete due to unexpected behavior of the business / market that would made the Business Manager prediction wrong for the rest of the year. In Rita's vision, the budgeting process was static, focused in the year-end goals and deviations and was outdated shortly after it was complete, involving a high number of employees from operational team to management and board members. Joana has also identified the discredit attributed to the annual budgeting process as an obstacle, due to the

recurrent needs of updated the budgeting numbers with forecasts, which by March replaced the budgeting done for so long and with so many resources, in order to contradict the deviation of some unpredicted events. Additionally, in Susana's point of view, the budgeting process doesn't support adequately the anticipation of risks and action plans, being the year-end an unappropriated focus that is spread in the entire Group.

In the interview with Manuel, he defined the budgeting process as:

“The budgeting process allocates in one single tool the target-settings definition, the plan and the resources allocation, which means that three different goals are expected from one single number defined in the budgeting process”.

This definition brings up the problems identified by Player (2009), about the different purpose for which the budgeting process was used, namely aligning incentives, developing the rational to allocate resources, setting targets and developing action plans.

The definition of absolute targets, characteristics of budgeting process, lose sense when the context changes, according to Manuel's opinion, so, along the year, every time the environment changes, in global context or in a specific event that impacts the company, the predictions would change for the rest of the year, putting the absolute target obsolete. As the targets are usually reviewed yearly, they can become outdated very fast and since 2008, it is more and more recurrent due to the instability of world economic.

The budgeting process according to Neely et al., (2003), is rarely aligned to the organization strategy, and in *Nors*, even if it wasn't explicitly identified as an obstacle by none of the interviewees, Manuel has referred when describing the beginning of the Darwin project implementation, that the first step in the Beyond Budgeting implementation process, have been the redefinition of all the strategy orientation for each Group Business Unit. In the budgeting process this step wasn't followed, reason why we can infer that the alignment of organization strategy was not a relevant variable considered during the annual budgeting process.

After analyzing the information gathered with the unstructured and semi-structured interviews, we can see that the obstacles identified by interviewees were mainly described and analyzed in the literature review.

4.2.2 Consequences

According to the data gathered during interviews and documents analyzed it was possible to identify four main consequences of the budgeting process that had a huge (negative) impact in the efficiency of the organization.

First, the budgeting process had an extremely high cost. The budgeting process had involved during 4 months, around 300 employees that have an average salary of €50.000, which adds to a cost of approximately 5 million euros, as referred by Manuel. Moreover, the process wasn't achieving the desirable outputs. Rui also mentioned the budgeting process was an extremely expensive process to the organization.

The second consequence of Traditional Budgeting process was the poor performance that the organization had been attained due to internal reasons (defined targets were not reached) as well as external reasons (choosing the wrong benchmarking). In Manuel's interview, he referred that since 2010 their EBITDA, was yearly 25% below the target defined, and when it wasn't so low it was due to market variables, nothing related to what they were doing in their business units. This kind of absolute target induces the disassociation with the market context, the competitors' performance and internal benchmarking, which can provide wrong information and so lead to incorrect conclusions and lower motivation of the human resources, because as said by Wallander (1999) *"There is no point in making a budget if you do not believe in it"*.

The year-end focus that managers were used to have was, according to Manuel's opinion, a huge problem because frequently induced unethical behaviors due to conflict of interest. This is consistent with Jensen (2003) that stated that the targets defined can lead managers to take actions to reach the targets even if those actions can damage the Company. For instance, during the month of December was usually the abnormal increase of sales, even if those actions could be against the company's interest, as such sales normally were done with lower or no margin, to customers that did not pay afterwards or the cars were returned in January, among others situations. In these cases, this vision of year-end can benefit in the short run the individual targets but clearly damage the company in the long run. These consequences are consistent with Player (2009) which identified that the budgeting process *"(...) leads to gaming where managers try to negotiate low targets to reach maximum bonuses"*.

The budgeting process gambling has an additional consequence identified by Manuel. Business managers frequently use the same justifications to target deviations, always promising to accomplish the target during the next period of revision. In the end of the year revision period the manager would promise to fulfill the target during the following year. This kind of behavior induced by the budgeting process was described by Jensen (2003) as the internal process that “(...) *rewards people for ignoring or destroying valuable information and punishes them for taking actions that benefit the company*”.

These obstacles and negative consequences of adopting the Traditional Budgeting process is the main motive why *Nors* decided to take a step forward and implement a disruptive, but full of potential, model such as the Beyond Budgeting model.

4.3 Beyond Budgeting Model

The Beyond Budgeting model was defined by Hope and Fraser (2003) as a model that goes far beyond the transformation of processes, tools and reporting outputs. The principal, bigger and most difficult change is relatively to the organization's culture. That's exactly the opinion of most *Nors* interviewees. Manuel identified the process level as the easy one to change, after 6 months of restructuration and 2 or 3 more months to improve the tools and the reporting model. The hardest was although the cultural changes, which have to be more gradual, more monitored and it takes long periods to reach small victories.

These two main dimensions of Beyond Budgeting model implementation will be detailed in the following subchapters.

4.3.1 Process level

Before the beginning of Darwin project, the project was presented to the Board Council, with the principal focus in the new tools and procedures that the model would bring, as well as, the relevant information that it would provide. The information, based in Key Performance Indicators (KPIs) would reflect exactly the performance of the business units and the Key Value Drivers (KVD) were seen as the (critical) information that would be monitored by the Board and by the whole organization. These KVD would allow the Board to clearly understand the business variables and questioning about unexpected.

Rui had referred that at that moment the Board approved the implementation of the Darwin project not fully conscious about the difficulties that project would bring to the

organization. But the disappointment about the current situation and the extremely high costs that the budgeting process leads them to conclude that, in the worst case scenario, if they had done nothing, they would stay in an undesirable situation. If they tried something new they could improve the situation. In the case the new project failed they had a safeguard plan, which was compare the current year performance with the previous year (n-1), which means that even without the budget, the previous year could be used for comparison/budget.

In this way, the project begins by process changes, because as Manuel explains, the tools transformation can start inducing some cultural changes underlined.

The project began with the strategic orientation revision of all business units by the Board Council. This revision that took two months was done with the purpose of rethinking the strategy of each Group business unit, which led to strategic orientations, such as, increasing the value added to costumers to suppliers and to human resources. After this, the strategic map for business units was completed and the Board delegate into the Business Managers the responsibility for the definition of operational strategies to accomplish the strategic orientations defined. The operational strategies was consolidated into a new tool called “MyDarwin”, in which was defined the vision and mission of businesses, the Managers ambition and how to measure the strategy implementation, being internally referred as the most important management tool to monitor business performance. For more detail, see the Appendix E.1. This tool would be updated every time new information about a KPI is known or when the Board approved news strategic orientations (Nors, 2013a).

After the orientation and the operational strategies were defined, the Planning and Performance Management Department was able to initiate the second step and implement the financial vision for the medium and long-term, consistent with the strategic map. This tool is based in the KPIs projections for the next 5 years as defined by the Board. With this new process the strategic ambition is represented through KPIs for market penetration, such as market share, for the quality and sales efficiency, such as gross margin and for productivity management, such as costs per sales (Nors 2013a). A representation of this tool is presented in the Appendix E.2.

The financial vision for the short-term, supported by the rolling forecast for the next 15 months, is the tool used monthly by the Business Managers to fulfill their predictions/forecasts for the defined KVDs. These indicators are used as the best to measure for value created by the business units. Business Managers have to make their predictions for the 15^o month ahead and correct the previous 14 months forecasts made if corrections are needed (Nors, 2013a). In this model, the month just ended turns into historical data and the 15^o month turns up, as shown in Appendix E.3. The 15 months was defined as the time horizon required for the major business project be completed.

As Manuel referred, the predictions made by Business Managers should always be different from the relative targets/goals defined and when the relative targets/goals are too close to the predictions made, so it's time to redefine the relative targets/goals.

The rolling forecast is the *Nors* continual planning process consistent with Horvath and Sauter (2004) and Player (2009) that suggested that in a competitive and dynamic market, companies needs more frequently to update budgets/forecasts in order to adapt it to changing conditions, in order to maximize profitability and minimize losses.

With this structural reformulation process, *Nors* became able to benefit from several Beyond Budgeting model advantages, identified by Pilkington and Crowther (2007) such as the higher speed process and adaptability to context, the direct communication, the openness and process flexibility, the chance to incorporate and align the Organization strategy within this process, the increase visibility of the business units and the earlier alert to management unexpected events, helping to better anticipate changings in business conditions (Player, 2009). This process allows the Business Managers to get away from the usual year-end focus and benefits from target-setting according to the specific conditions (Horvath and Sauter, 2004).

As suggested by literature, our 5 interviews also referred several advantages of this new process. Manuel identified as benefits of this new model better forecasts, the anticipation of business risks, the plan of action in accordance with such risk and the performance improvement in every business. Rui mentioned that after the chaos and the initial resistance, the adaptation phase that showed better results in terms of forecasts increase the consciousness of the importance of this new model from Business Managers to the Boards members. In Rita's opinions, the clear advantages from this new process are the flexibility

that allows Managers to adjust the predictions to the current market context, the ease of communication and the anticipation of issues that can derail the targets defined, giving time to implement corrective measures. In the last interview Joana, as Business Manager, referred the fact that the Beyond Budgeting model brought dynamism to the process and more accurate predictions in terms of business evolution, business cycles, and market behavior. It also allows the company to be more prepared to face the future and implement business action needed to attain the targets proposed, increasing the awareness about the business performance.

The implementation of Beyond Budgeting in *Nors* was done approximately in 6 months, after which it was possible to have the first reporting based in Beyond Budgeting principles.

In the first rolling forecast the relative targets was there, but they were not fully understood by Business Managers, which continuous talking about absolute target (e.g. sales, EBITDA, etc.). So, at that time, *Nors* was having a completely new tool but the culture of Traditional Budgeting process remained the same. For that reason every single person become uncomfortable with the new model implemented and the different stakeholders start having communications difficulties.

This point was clearly the most difficult moment in this transformation process, as the first impact, the first reactions create a huge resistance, and attempts to discredit all the project. Rui identifies two factors that lead to the project success. First, the Board Council was convinced about the path to follow and still believed in the project, even when the general opinion was the opposite. Second the decision to abandon the budgeting process all together since the beginning of the Darwin project. This decision make impossible to have parallels models, tools. If that decision had not been taken, the first impulse would be to return to the budgeting tool instantly and postpone the new tool implementation, and after that, the project will be already discredited.

Another difficulty in the process level was the definition of relative targets instead of absolute target, as performance measurement. From the information gathered in Manuel's interview, we found out that only after 2 years of the start of the project, the performance was fully defined based in relative targets. During this two year period the relative targets were "under covered" since although market penetration, gross margin, days of working

capital, return on capital employed were the principal indicators, Business Managers and their hierarchical superiors were still talking in absolute values, However, the compensation of managers is still defined in absolute targets. The Human Resources Department is planning to review this compensation model and implement a simpler model based in variable relative targets, adjusted during the year according to the market context.

During these last two years of implementation, several changes were made to the rolling forecast process. New information has been included in the report in order to give more comfort and to support the rolling forecast execution. This includes year-to-date information, end-of-year target and the vision subjacent to the forecasts. The end-of-year targets, also called as intercalary target when the ultimate target is supposed to be reached only after several years, are used as a guideline to Business Managers as they allow a better monitoring.

The dynamic resources allocation and its timely availability are other gaps in the current Beyond Budgeting model implementation, which according to Manuel is due mainly to cultural issues. The next step is to make Business Managers accountable for resources allocation with impact in the benefits and compensation model.

From the Business Managers perspective, there are some improvements to be made. According to Joana and Rita perspective the new model should be improved in order to meet the specific needs of each business. In this moment, the model is perfectly tailored to the auto business, the core business of *Nors*, but the additional businesses should be also take into account, such as the industrial equipment's and services, and new key performance indicators, key value drivers, benchmarking comparison need to be developed.

4.3.2 Cultural level

The command and control culture in place at *Nors* until 2012 together with the Traditional Budgeting process created cultural habits that top management wanted to reverse. The Darwin project, as mentioned by Rui, was used as a cultural change accelerator instead of using other alternatives such as recruiting new people to change the culture of the organization.

The cultural change, contrarily to the processual change, is a gradual and long process, from which the results arise very slowly. Manuel identified the Darwin project as

demotivating and the fact that he participated in the Beyond Budgeting Round Table allowed him to learn from other companies that had suffered the same problem while implementing the Beyond Budget process and that allowed him to keep preaching the model in the organization.

The first step at the cultural level, detailed in subchapter 4.1.1, was taken in October 2012 and consisted of the decentralization of the governance structure of command and control presented in the Company's culture for long. This new governance model has reached the main goal of delegating more power to the full time Administrator, releasing the Board Council to the Group strategic decisions. This has allowed boosting the growth in all markets the company was presented while at the same time created synergies within business units which reduced structural costs and allowed to spread the Group shared values.

The Beyond Budgeting model had origin decades ago in Scandinavian countries. According to Hammer (2010) this was possible since, the Beyond Budgeting model was taking advantages of the Scandinavian cultures that allows a quick implementation of this model and a high degree of efficiency. The main characteristics of Scandinavian organizational culture that helped to introduction of the Beyond Budget model were: a) the low power distance between top and bottom employees, b) weak uncertainty avoidance and c) femininity features. The low power distance was really important because the Beyond Budgeting model focuses on decentralisation of governance and empowerment of subordinates. The uncertainty avoidance dimension allows an easy implementation of this new model as the *“empowerment of subordinates is advocated along with the adoption of a minimum of goals and boundaries. This entails uncertainty on the emotional level which strongly favours cultures with weak uncertainty avoidance”*. The femininity is an important cultural characteristics as the Beyond Budgeting model leads to team work, which is a critical conditions to this model success (Hammer, 2010).

Although *Nors* has Nordic origin, nowadays the Board Members and the Business Managers are mainly Portuguese. According to Manuel and Rui, *Nors* was able to make the implementation of this project success mainly due to the decentralization occurred in the beginning of the project. This decentralisation allowed the company's common values to be shared with all *Nors* employees and so created conditions to increase the trust in

teams, teams that started to be regulated and accountable for their performance in a holistic way, as preconized by the BBRT principles (BBRT, 2015). The decentralization of organisations also means that the leaders should still analysing the decision made process, make sure that any better alternative was able to be implemented and that the potential risks have been measured previously to the decision making. They should also challenge the businesses to reached continuously better performance compared with benchmarking (Pflaeging, 2004).

4.3.3 Major Obstacles

From the data gathered through the interviews done for this research, it was possible to verify that the model is running and the implementation of project is considered a success. However some obstacles still exist and they are preventing the Organization to benefit from all the advantages provided by this new model. According to Rui, a major obstacle, but the one that will bring higher value, is the change of paradigm in the communication between the Business Managers, the Administrator and the Board. Before the implementation of the Beyond Budget model, the budgeting process was button up, involving the discussing of the main numbers (e.g. sells increase) and if the numbers seems comfortable for both parts the communication would end there most of the times. With the implementation of the Beyond Budgeting process the discussion include the analysis of the critical variables, the KPI and KVD. As both sides realized that financial results cannot change unless the agreed critical variables change.

According to Joana the autonomy to fulfil the rolling forecast along the year is already felt but for the year-end targets has always to be approved by her hierarchical superior, which reflects the intrinsic focus in the year-end culture that remain unchanged.

Another major difficulty about Darwin project implementation was the need create in the Business Managers the necessity to conduct monthly forecasts. *Nors* has realized that Business Managers don not like to project the future and plan the actions in accordance every month. For Manuel that means that they are during the year, mainly reacting to the problems as they arise and according to his perception this is not only with Portuguese Business Managers but an international tendency.

Manuel also identified as an important obstacle, the intrinsic culture in Latin Europe, were the main culture on organizations is a command and control culture while the

accountability of Business Managers tends to be putted into a second plan. Business Managers when miss their targets, usually justify that with the fact that such targets were defined according to the Board and Business Administrator orientations, which means they do not fell responsible for that. This fact makes very difficult to “punish” bad performances.

After two years of Darwin project implementation, the reward of good performers and “punish” of bad performers is still missing, which according to Manuel would be of the next steps in a near future together with the revision of the benefits and compensations model altogether.

Manuel recommendation to other companies that would like to implement this new model would be that lessons learned from other companies are very valuable, and so they must try to gather as much information they could about previous experiences but the critical advice is that the engagement of the main management is crucial for a successful implementation of this model.

Finally, Manuel challenges companies that still do not have a formal budgeting process, to implement the Beyond Budgeting model principals instead of implement the Traditional Budgeting process in the first place, as it would be easier since the organization culture changes will not be an obstacle to deal with. His opinion is consistent with Pilkington and Crowther (2007), that suggest that *“as small first growth they could bypass traditional budgetary system and simply adopt this model”*.

5. Conclusions and discussion of the main lessons gathered

The Traditional Budgeting process definition, design and main functions have been invented more than a century ago and the model was spread up around the globe. The principles based in fix plans, forecasts, resources and targets have been subject of much criticism, reason why researchers start looking for better management models. The Beyond Budgeting process has been suggested as the better model to replace the Traditional Budgeting process altogether and adapt the performance management system to today's globalization and market volatility and with it increasing the company profitability and value to shareholders (Hope and Fraser, 2003). However, this transformation process goes beyond the tool replacement, involving a cultural change (Ehrhart et al., 2006).

5.1 How the Traditional Budgeting process can damage companies?

The Traditional Budgeting process can affect negatively the company two ways. First, it creates obstacles to the company's performance and second, the problems the process itself creates periodically. The negative impact can be felt in several ways, first, the significant time and resources spending is unanimously identified as an obstacle to the company during the five face-to-face interviews done for the conclusion of this dissertation, as well as, in literature. All interviewees agreed that it takes too long and too many people that the total cost can add up until 5 million euros a year. Second, the budget becomes outdated very quickly, become an obsolete tool, normally since the beginning of the year, which requires two or three revision forecasts during the year to update the budget values. Third, the Traditional Budgeting process is normally not aligned with the Group or businesses strategy. For instance, in *Nors* case, the budget was done completely disassociated with the strategic orientation. Fourth, Rui as well as Neely et al. (2003) mentioned that budgeting process is commonly based in unsupported assumptions, mainly supported in historical data allied with guesswork. Finally, the budget process define fixed targets to reward people which leads to information bias, which is according to Jensen (2003): *"People are taught to lie in these pervasive budgeting systems because if they tell the truth they often get punished and if they lie they get rewarded"*.

Consequently, the Traditional Budgeting process involves a huge investment, every year, in terms of time, people and technologies. The setting up of ambitious targets justifies even more the underperformance. In order to reach those ambitious targets, a unethical behavior

and “gambling” produces a high cost to companies, mainly, due to the damage caused by individual focus on own interest and not on the company interests.

5.2 Why to implement the Beyond Budgeting model? Which are the process and cultural benefits of this model?

According to Manuel and Rui, the Beyond Budgeting model was the model that had an answer to all the negative consequences associated with the Traditional Budgeting process.

At the process level, three different tools were implemented by *Nors*: the MyDarwin project, the medium and long term financial vision and the rolling forecasts. Those tools allowed redefining all the strategic orientations and turning transparent to the Business Managers the monthly predictions (for the next 15 months) about the critical indicators defined as business drivers. It allowed *Nors* to benefit from the alignment of the budgeting process with the organization strategy, the increase visibility of the business unities to management that allowed them to anticipated deviations to the targets and the setting up of relative targets, according to varying conditions.

In the cultural level, the first principle of Beyond Budgeting process implemented was decentralization of decision making. As cultural changes are hardest and gradual, *Nors* thinks they are just half way, after two years since the beginning of the project. According to Manuel’s opinion there are several reasons for that. First, the focus in the year-end results is still present and the annual account closure doesn’t help to implement a different mind-set. Second, the difficulty to punish bad performers as, usually, the targets are defined according to the hierarchical orientations. Third, induce the Business Managers to make monthly predict for the following months which they have been resist.

After these two years of implementation, the results are mainly qualitative such as the feeling of serenity in this moment of higher economic uncertainty as the Group has now higher awareness about the financial health of each business and about the proactive reactions of Business Managers. In quantitative terms, this project allowed to reduce on average 20 days of needs of working force and highly increased the quality of forecasts, Indicator which measure the deviations business predictions made by Business Managers.

5.3 Case study limitations

This study based in a singular case study has the limitation of generalization, due to the fact that mainly researcher methodology was done through face-to-face interviews, based

in Yin (2003) systematic procedures to increase the scientific validation and reliability, although some bias could be unconsciously included.

As this dissertation focus the analysis into the Beyond Budgeting model as substitute model to the budgeting process, it could be interesting to research about the less disruptive model detailed in the chapter 2, the Better and Advanced Budgeting models and understand if these models fulfil the gaps created by the classic model without such a complex process and cultural organization transformation.

Additionally, for further researches in this field, it will be interesting study the transformation of the benefits and compensation model according to the Beyond Budgeting process. In *Nors*, this process was not implemented when the information was collected, were they only had some inputs in mind for the new model that must set in variable relative goals, turning perceptible to all employees their contribution to the received compensation.

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7. Appendices

Appendix A – Literature review about budgeting process

Table 2 - Systematization of budget process definitions

Authors	Year	Methodology	Unit of analysis	Country	Sample size	Research methodology	Definition
Wallander, Jan	1999	Qualitative	The Firm	Sweden	1	Case analysis (self experience)	<i>"A budget is a forecast and a plan for the company for the next year, and in some cases for the next two, three or even more years. The budget is built on forecasts concerning the general development of demand, prices, exchange rates, wages, costs and so on".</i>
Ehrhart, K. Gardner, R. Hagen, J. V.	2006	Quantitative	The Institution, The Individual	USA	128	Statistical Analysis	<i>"A budget process is a system of rules governing the decision-making that leads to a budget, from its formulation, through its legislative approval, to its execution".</i>
Jensen, Michael C	2003	Qualitative	The Firms	N/A	Multiple	Documental archive analysis	<i>"Budgeting systems are ubiquitous. Long considered a necessary tool in managing a company, the budgeting process frequently consumes six months of management time in negotiations, planning, and target-setting. Such systems are intended to coordinate the activities of the units and motivate managers. They are used in simple organizations and in vast and complex enterprises".</i>
Player, Steve	2009	Qualitative	The Firms	Canada	Multiple	Documental archive analysis	<i>"Budgets have been described as "a financial blueprint of management's expected plan of action. As such, they serve at least six key functions: 1.Setting targets 2. Aligning incentives 3. Developing action plans 4. Allocating resources 5. Coordinating across all functions 6. Monitoring and controlling finance"</i>
Brown, Jackie Brander Atkinson, Helen	2009	Qualitative	The Firms	USA	1	Face-to-face interviews	Budget born as an aid to financial forecasting, cash flow management, control of cost and capital expenditure but more recently the budget process have been utilized to communication, to determine corporate goals, to allocate resources and appraising performance functions, that it never being design for.
Neely, Andy Bourne, Mike Adams, Chris	2003	Qualitative	The Firms	London	15	Cases analysis	<i>"(...) to be effective, budgets must be aligned with the organization's strategies, appropriate strategic planning, and performance management processes introduced, and must involve processes that are value based, consequential and continuous".</i>

Source: Author's compilation

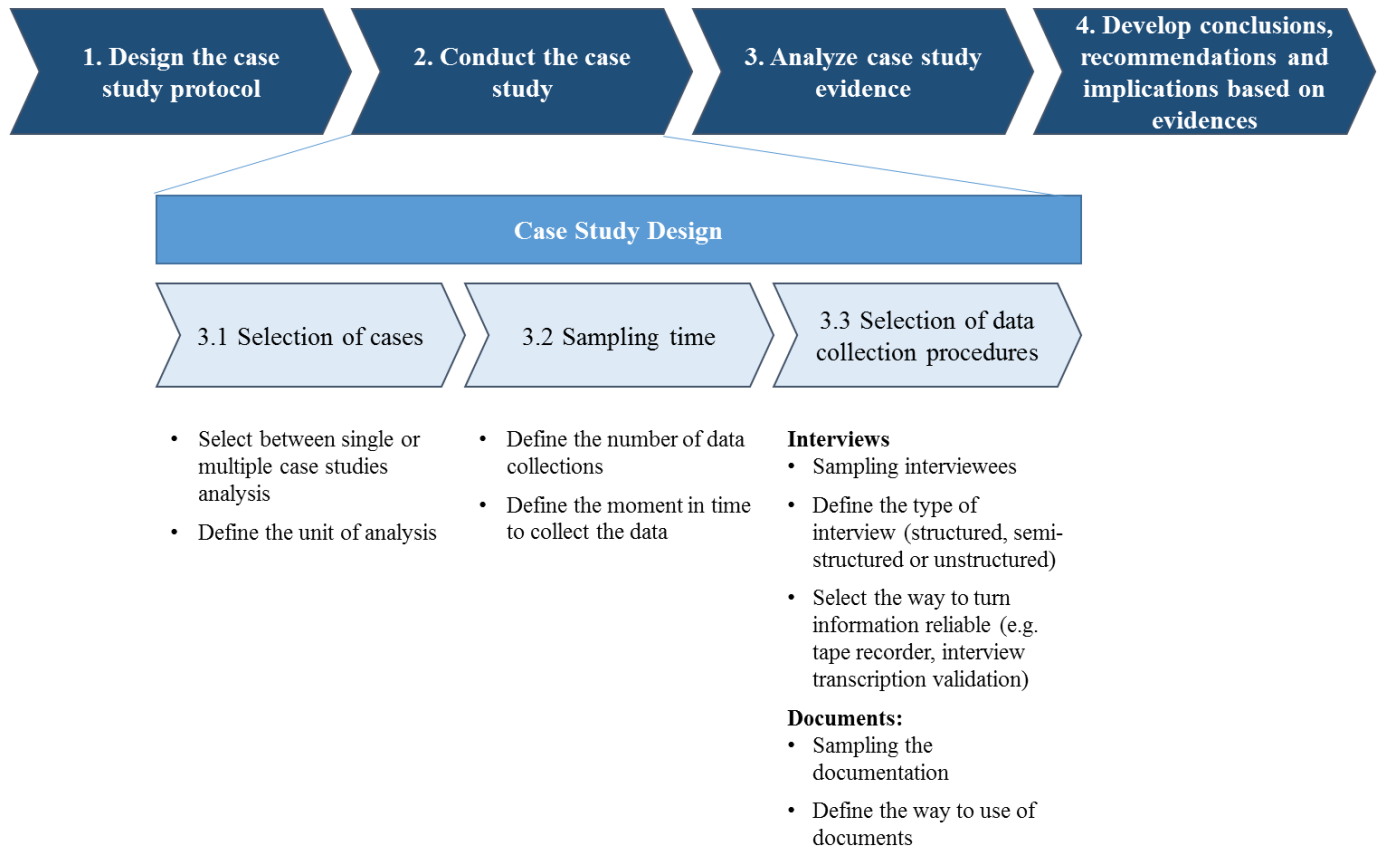
Table 3 - Selected studies about obstacles/consequences of Traditional Budgeting process

Authors	Year	Methodology	Unit of analysis	Country	Sample size	Research methodology	Determinants analysed	Significant obstacles / consequences
Wallander, Jan	1999	Qualitative	The Firm	Sweden	1	Case analysis (self experience)	<ul style="list-style-type: none"> - Poor performance compared to competitors - Forecast assumptions "the same weather tomorrow as today" - Experiences of abnormal situations - Perception that high number of variables and sophisticated techniques and theories were mainly influenced by few basic assumptions that are the determinants for the outcome of forecast 	Deficiency performance system, Model complexity
Jensen, Michael C	2003	Qualitative	The Firm	N/A	Multiple	Documental archive analysis	<ul style="list-style-type: none"> - Perception that almost every company in the world uses a budget or target-setting system that rewards people for ignoring or destroying valuable information and punishes them for telling the truth or taking actions that benefit the company 	Target-setting of budget process link to compensation model
Horvath, Peter Sauter, Ralf	2004	Qualitative	The Firm	N/A	Multiple	Documental archive analysis	<ul style="list-style-type: none"> - Takes too long, consumes too many management resources and rapidly becomes obsolete - Fails to motive people to act in the best company interest - Budget emphasizes financial performance disassociated with strategy 	Inefficient, Don't motivate the right behaviors, Not synchronized with strategy plans
Player, Steve	2009	Qualitative	The Firms	Canada	Multiple	Documental archive analysis	<ul style="list-style-type: none"> - Costs too much - Takes too long (budgets are out-of-date when published) - Does not add value in managing the business - Requires a crystal ball to predict the future - Slows response time, limiting discussion of innovative ideas to narrow budget preparation window - Leads to gaming where managers try to negotiate low targets to reach maximum bonuses - Sub-optimizes results 	Relevant costs, limited adding value, slows response time and innovation, linking with rewarding model

Authors	Year	Methodology	Unit of analysis	Country	Sample size	Research methodology	Determinants analysed	Significant obstacles / consequences
Brown, Jackie Brander Atkinson, Helen	2009	Qualitative	The Firm	USA	1	Face-to-face interviews	<ul style="list-style-type: none"> - Traditional budget process considered very bureaucratic and protracted, due to its numerous revisions and substantial delays - Typically budget encourages parochial behavior, reinforce department barriers, because it's seen as a rigid commitment management 	Inefficient and Ineffective
Hope, Jeremy Fraser, Robin	2003	Qualitative	The Firm	Sweden	2	Cases analysis	Companies have invested huge amounts in technology to improve their processes and implement complementary management tools such as "EVA (<i>Economic Value Added</i>), <i>balanced scorecards</i> , and <i>activity accounting</i> " with poor results because this tools are limited by the budget mindset and the command and control culture that stills preminent in this companies.	Investment without success Additional tools implementation to complement the budget process
(Kraus, 2006) cited by Rickards, Robert C	2006	Qualitative	The Firms	London	6	Cases analysis	<ul style="list-style-type: none"> - Budgets lack sufficient strategic orientation, focused in cost reduction and short-run profit goals rather than in value-creation and long-run strategy implementation - Ignore the dynamism of globalized markets - Lead to inappropriate / unethical management behavior due to the link to performance evaluation 	Lack of strategic focus Inflexible model Unethical behavior
Sivabalan, Prabhu Booth, Peter Malmi, Teemu Brown, David A	2009	Quantitative	The Firms	Australia	331	Surveys	Companies usually uses budgets for planning and control (control of costs and board of director monitoring) but also for performance evaluation reasons. "Budgets might also be used to assist organizations in the management of production capacity in an upcoming period".	Planning Control Performance evaluation Operational planning

Source: Author compilation

Appendix B – Data Methodological procedure for the case study



Source: Author adaptation from Tellis (1997)

Appendix C – Data collection procedures

C.1 Interview script

Project Overview

1. What were the main reasons for the onset of the Darwin project? What criteria have been analyzed to the decision of leaving the budgeting process be made?
2. Overview of the Darwin project and detail of the main activities, scope (geographic and businesses), schedule and responsible
3. Do you chose a totally disruptive project comparing with the previous budget process from the beginning of the project or turned what existed gradually and in a less disruptive way?
4. Did you reviewed the relevance of not completely substitute but rework / complement the budgeting process with other tools that could help through the disadvantages identified in the old process?
5. What were the main difficulties / obstacles identified during the project?
6. Was there any period where the new process work in simultaneous with the previous budget process? If yes, for how long and why?
7. If so, do you felt a reduction in the commitment of managers with the goals due to ambiguity with are two tools simultaneously during that period?
8. The idea of changing the budgeting process came from the Department of Management Control? When and how you got the idea to move forward with this project? Motivations that existed to set it was time to leave the budgeting process?

Budget process

9. Several authors point out some disadvantages of the budgeting process. Do you review the following disadvantages in your previous process:
 - ✓ Inefficiency
 - ✓ Hard plan with fixed objectives
 - ✓ High cost in terms of time and resources
 - ✓ Quickly becomes obsolete and unable to adapt to the market dynamism / organization
 - ✓ Causes shifts from the main focus
 - ✓ Power wrong behaviors when associated with the compensation model
10. If the company was smaller do you considers that will had the same success in implementing the Darwin project? And if it was considerably higher?

Alternative tools

11. The tool chosen was the rolling forecast, other hypotheses were evaluated?
12. How this change allowed to boost:
 - ✓ Accuracy of the annual forecast
 - ✓ Business monitoring
 - ✓ Anticipation of critical factors, risks, etc.
 - ✓ Performance Group as a whole and in each business
13. In what ways, this new tool has improved the monitoring of managers of the organization's activity and the activity of its sphere of responsibility in specific?
14. The tool itself allowed for an improvement of the performance of the Group?
How?
15. The new tool allowed further reduce the time spent over the budgeting process?
On average, how long it reduced?
16. Some of the rolling forecast advantages pointed out by authors are: Do you reviews *Nors* in the listed benefits?
 - ✓ Allows to improve business visibility
 - ✓ Enables managers to anticipate critical variables changes
 - ✓ Power to adapt to changes in business
 - ✓ Increase focus on critical factors of business than in seeking assertive data with results
 - ✓ Reduces the focus at the end of the year, avoiding the efforts focused on specific period for regular monthly effort
17. Some of the rolling forecast of the disadvantages mentioned by authors are: Do you reviews *Nors* in the listed disadvantages?
 - ✓ Requires ongoing maintenance of data and resources
 - ✓ In a climate of high volatility, can make some objectives unclear due to constant changes
18. In terms of strategic planning, there is a tool allocated to the process? If yes, it has changed with the Darwin project?
19. The most common cycle of management control predict the existence of a budgeting process, accompanied by a forecasting process. In the case of *Nors* both processes have been changed?

Compensation and Benefits

20. Often, performance evaluation and compensation / benefits of employees are linked to the fulfillment of the annual budget. This was the case in *Nors*? Do you felt that connection harmed in any way the accuracy / quality of information given by business managers?
21. Do you felt that the connection harmed in any way the accuracy / quality of information offered by business managers?
22. The new tool rolling forecast, is linked to benefits and compensation of employees?
23. How have been redefined the issue of benefits and compensation model according to the new tool?
24. Do you felt the difference for the inputs given by managers to the budget and now to rolling forecast after the change of connection management business forecasts and the allocation of compensation / benefits?

Organizational Context

25. Given that you clearly knows the two tools, can you see any case where probably the budgeting process would bring clear advantages over the model beyond budgeting?
26. This process was conducted in a pioneering way a few years ago by several Scandinavian companies. The Nordic cultural background Group had weight when making decisions?
27. Is there any aspect that you would like to change if the project start again from the beginning?

C.2 Interviewees curriculum vitae and description

The first interview, was done with Manuel Ferreira, the current Director of Planning and Performance Management Department, he was graduated in the University Católica of Porto in Business Management, and he is the main responsible for all the research about alternative models to substitute the annual budgeting process. Manuel is in *Nors* since December 2009, he has begun as Director of the Planning and Control Management Department and after the beyond budgeting project implementation, in October 2012, turns into the responsible of the Planning and Performance Management Department. He is a member of the Beyond Budget Round Table since the beginning of the project implementation, with the aim of developing knowledge about the Beyond Budgeting model and sharing knowledge and experience with others companies that are or have been passed through a similar experience, in order to share lessons learned and develop together solutions to the common problems.

In the second interview Susana Fonte gives us a participant / observation perspective, because she have been present since almost the beginning of the project, in the end of 2012, in Planning and Performance Management Department, firstly as a trainee from an internship that allowed her to develop her thesis for the master of Audit and Tax in the University Católica of Porto. The theme she developed was about the control of the budgetary model in Auto Sueco Group. With this study she was able to examine the reasons behind the adaptation of the Beyond Budgeting model, where her main goal was to understand the maturity level of the 12 BBRT principles implementation in Auto Sueco Group. Ever since, she was integrated in the team of the Planning and Performance Management Department given her the possibility of having a good perspective not only about the point where the project is today, but also where it have been since the end of 2012.

The interviewed Ana Freitas, is the one who talked about the two project perspectives, firstly as a member of Planning and Performance Management Department and secondly as a Business Unit impacted participant. She was graduated in Management in University of Minho in 2010 and integrate the Auto Sueco Group in São Paulo, Brazil in 2011, as member of Planning and Management Control. In the end of 2011 she was allocated to the Planning and Performance Management team in the Portuguese Group Holding, being an active participant in the project implementation until 2013, year where she was allocated to the function of Controller in a Business Unit of Auto Sueco.

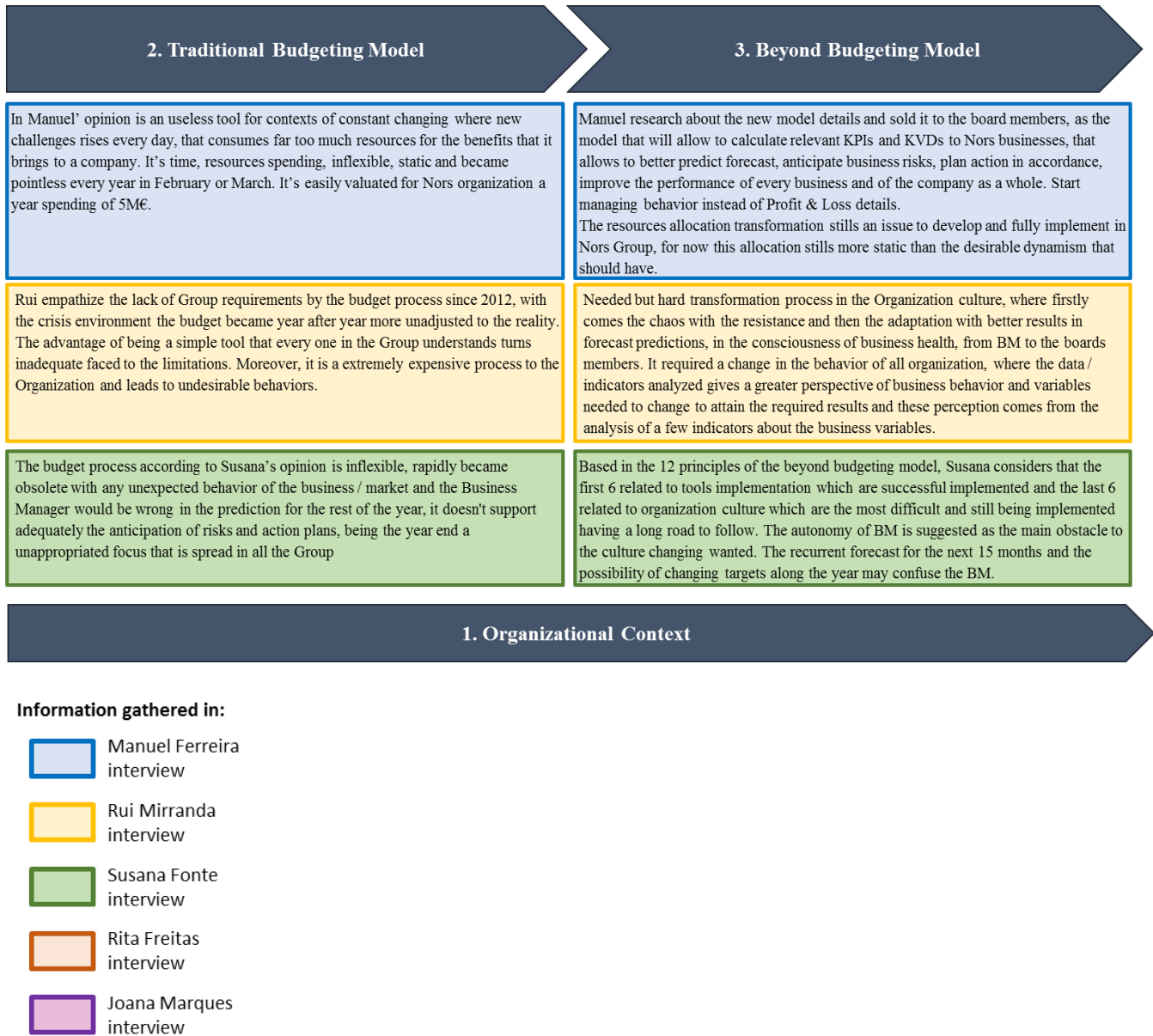
The Chief Financial Officer, Rui Miranda, was the following interviewed, he is in Auto Sueco Group, since 1999, firstly as Financial and Administrative Director of Auto Sueco Group, being currently the CFO of the Group. Until 1999, Rui was the Civiparts SA Company Executive Director. He was graduated in Administration and Business Management from the University Católica of Porto and a Masters in Finance from the same University. Rui, as Group CFO was one of the main sponsors of the project within the Board Council and believed in the project since the beginning, approving the implementation of the project and the budget process abandon altogether.

Finally, the last interview was done with Joana Marques, the ExpressGlass Managing Director, the Group business focused in the repair and replacement of cars glasses. She was graduated in Economics by the University of Economic of Porto in 2003 and she is in ExpressGlass since 2008, the first four years as Marketing Manager of ExpressGlass. In 2010, the company passes through an acquisition operation to the *Nors* Group, year here she meet the classic and complex budget process developed in the Group. After that, in 2012 she turns into the Managing Director of ExpressGlass and is impacted with the transformation project of implementation the Beyond Budgeting model.

For the last two years, Joana's earn the performance league of Business Manager with better quality in rolling forecasting's, the Business League, created by the Darwin project as motivation and performance measurement.

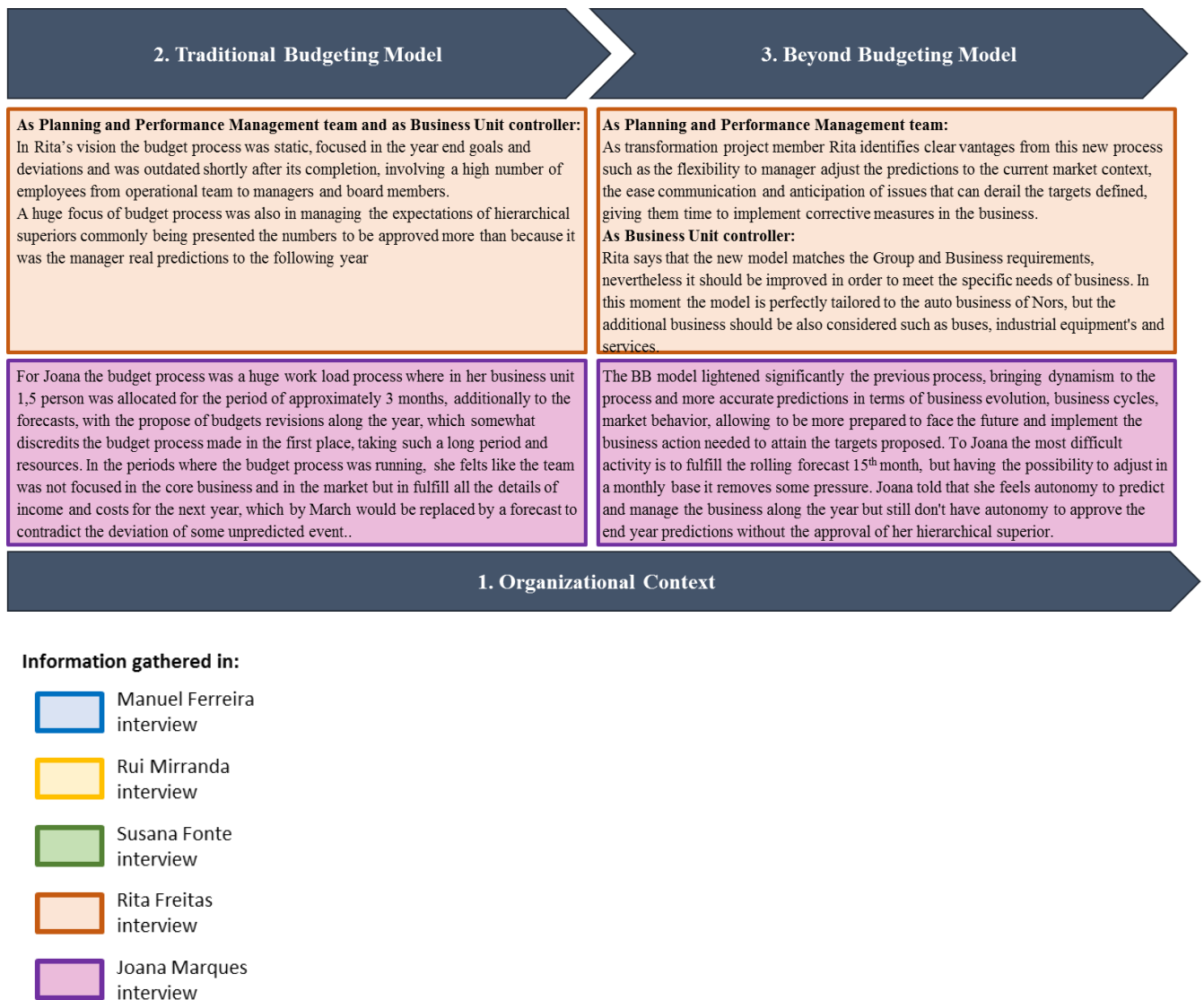
C.3 Interviews Summary per Participant

Figure 5 - Interviews summary (part 1)



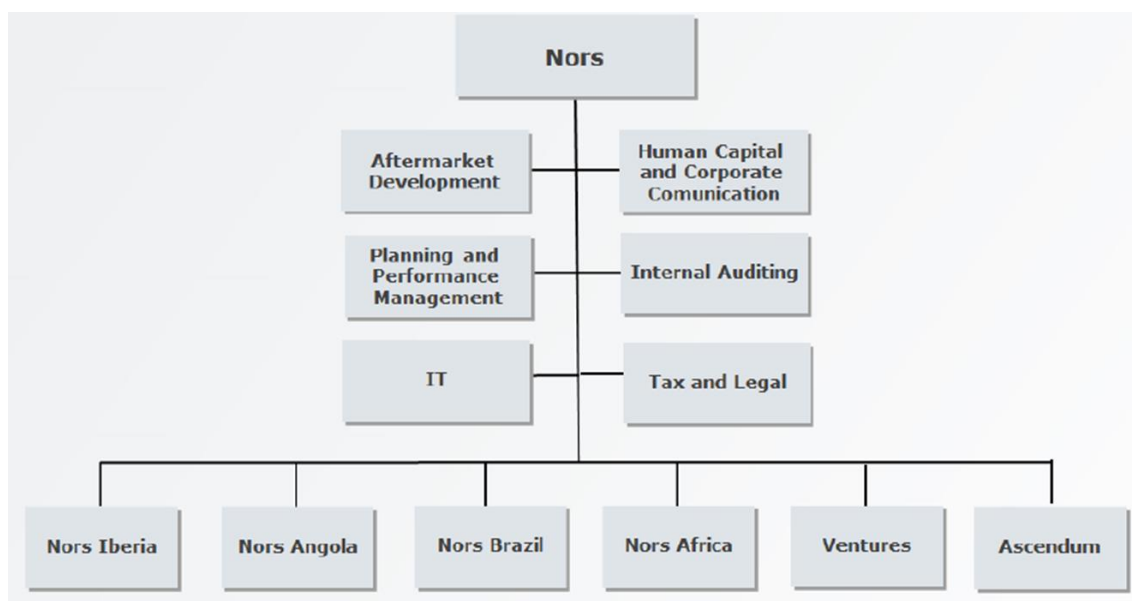
Source: Author's elaboration

Figure 6 - Interviews summary (part 2)



Source: Author's elaboration

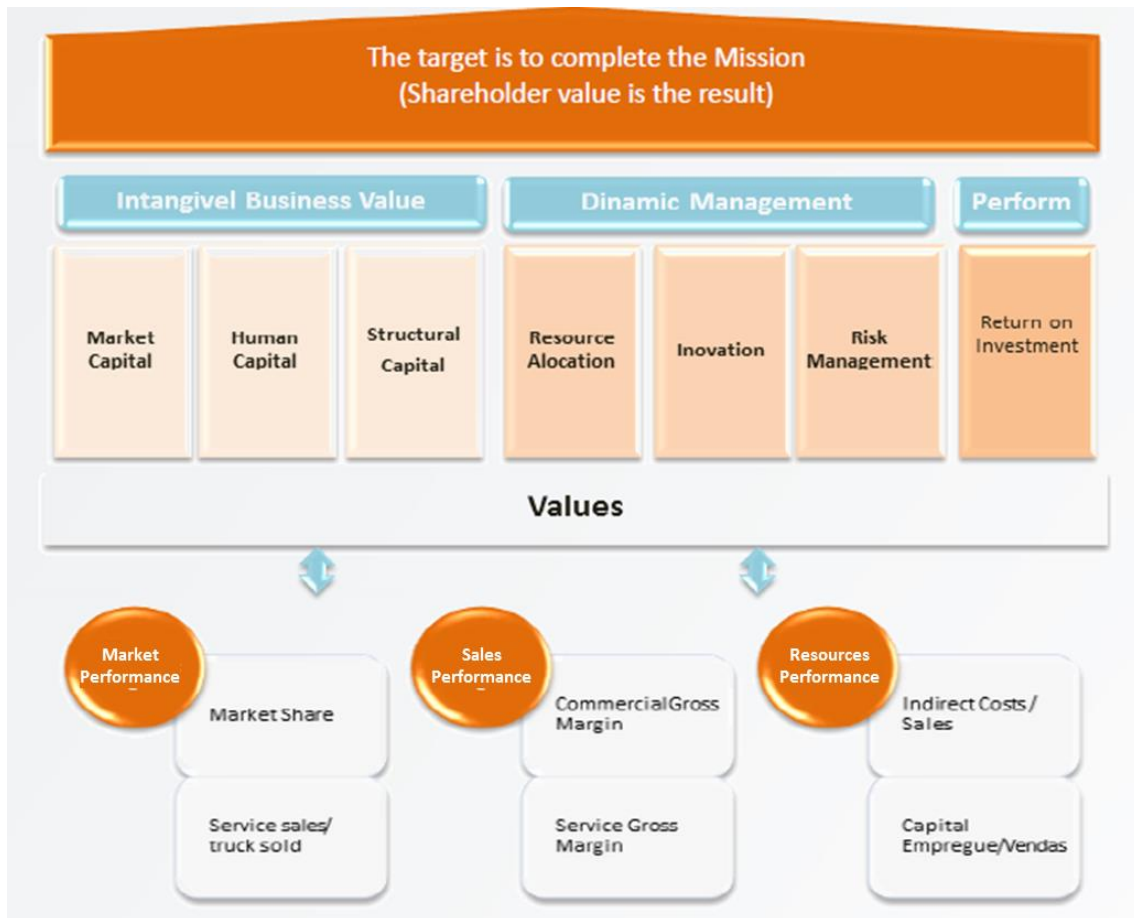
Appendix D – *Nors* New Organizational Structure



Source: Author adaptation from Nors (2014a)

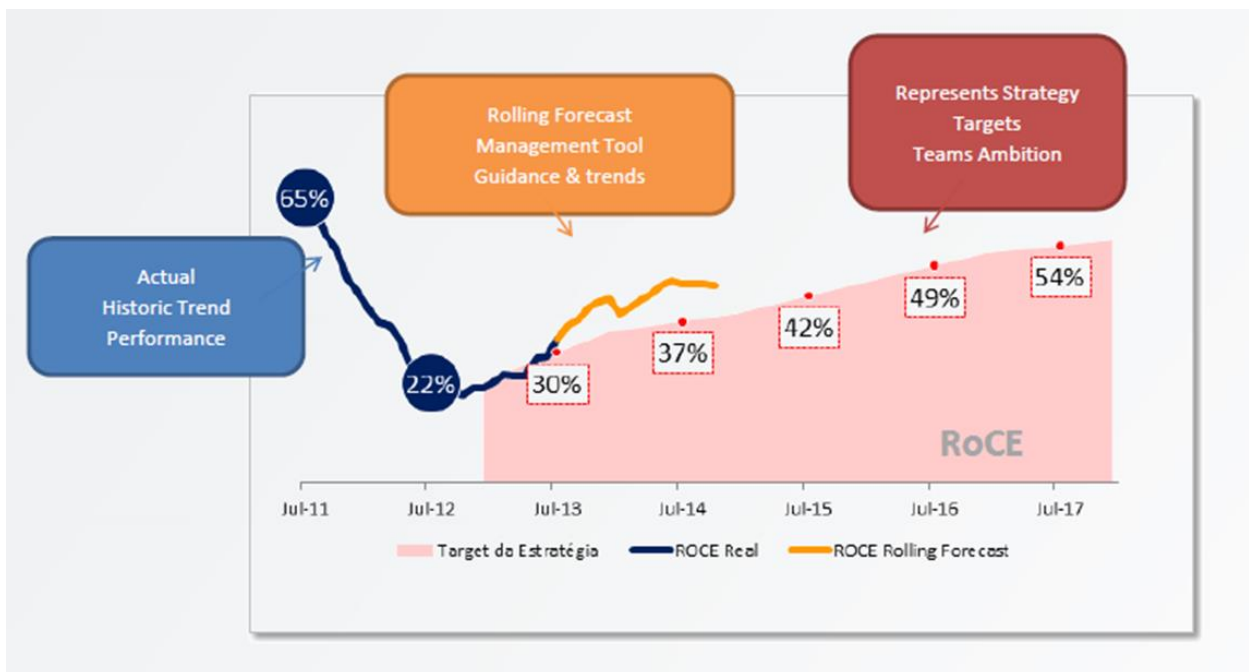
Appendix E – *Nors* implementation at Process level

E.1 *Nors* Strategic Map Framework – MyDarwin



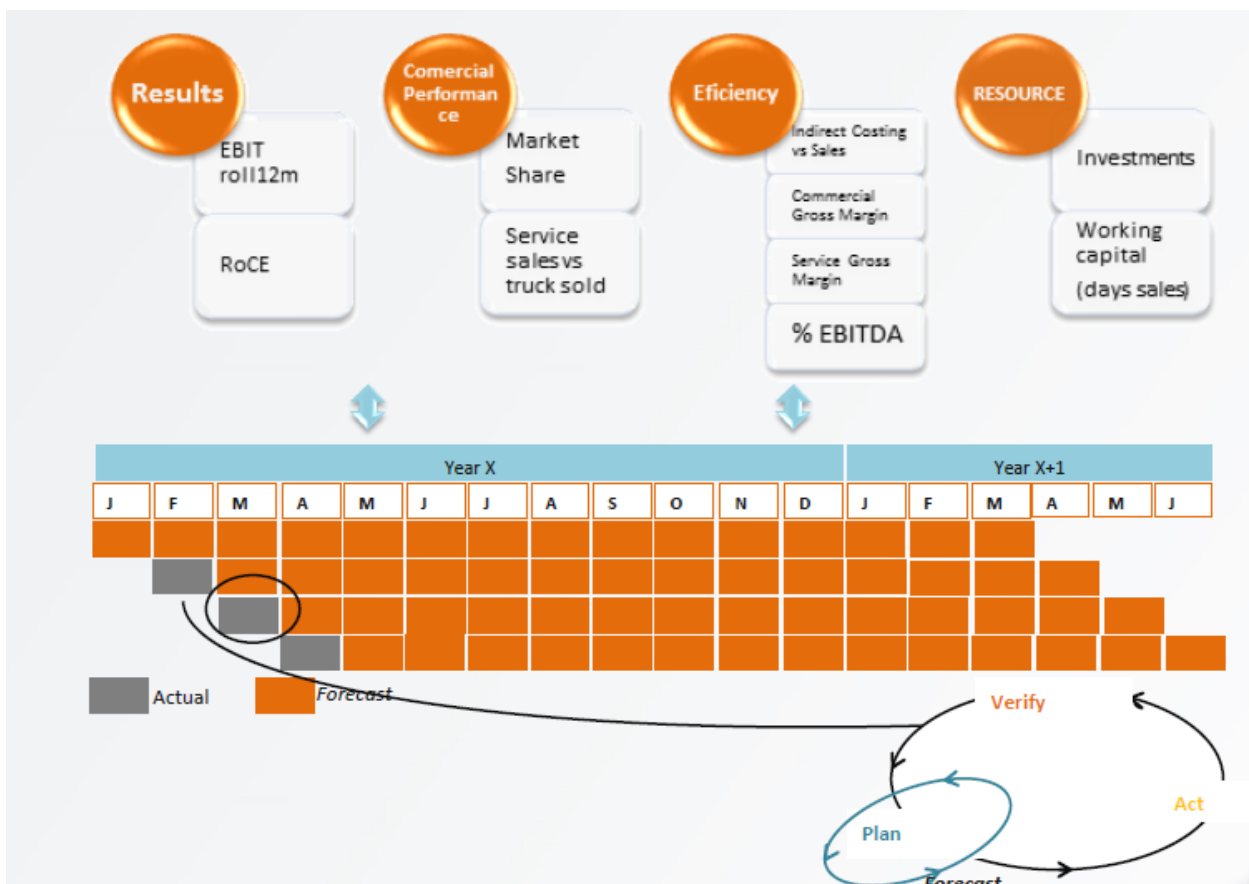
Source: (*Nors*, 2013a)

E.2 Nors Financial vision Medium/Long-term



Source: (Nors, 2013a)

E.3 Nors Rolling Forecast framework



Source: (Nors, 2013a)